Annual Report VIVAT Schadeverzekeringen NV 2017

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1. Key Figures

In € thousands	2017	2016	2015	2014	2013
Result					
Net premium income	644,258	621,100	640,433	713,243	725,076
Investment income	15,845	19,008	22,817	38,047	128,525
Total income	664,017	658,959	664,813	752,154	855,476
Total expenses	656,566	721,839	770,259	895,313	851,289
Result before tax	**7,451**	**-62,880**	**-105,446**	**-143,159**	**4,187**
Tax expense	1,311	-15,761	-26,528	-35,956	880
Net result	**6,140**	**-47,119**[1]	**-78,918**	**-107,203**	**3,307**
Statement of financial position					
Total assets	**1,811,745**	**1,914,854**	**1,891,813**	**1,739,021**	**1,747,652**
Investments	1,567,226	1,635,537	1,614,618	1,430,732	1,457,039
Total equity	**350,329**	**358,000**	**404,839**	**289,161**	**351,231**
Insurance liabilities	1,158,670	1,237,301	1,247,638	1,289,982	1,221,903

> Ratios					
Regulatory solvency II VIVAT Schadeverzekeringen NV	162%	152%	142%[2]	-	-

[1] The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

[2] Regulatory solvency II ratio is based on Day 1 figures. This ratio is unaudited.

VIVAT Schadeverzekeringen and VIVAT Schadeverzekeringen NV

In this annual report, we use the name 'VIVAT Schadeverzekeringen NV' when referring to the company financial statements of VIVAT Schadeverzekeringen NV. For the consolidated financial statements of the insurance business as a whole, we use the name 'VIVAT Schadeverzekeringen' (hereafter: VIVAT Schade).

The VIVAT Schade Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code includes the following chapters: Key figures (chapter 1), Message from the Executive Board (chapter 2), Strategy and Developments (chapter 3), the Executive Board (chapter 4.1) and Remuneration (chapter 4.4).

2. Message from the Executive Board of VIVAT Schadeverzekeringen NV

Dear stakeholders,

2017 was an important year for VIVAT Schade. It was the first full year after an extensive transformation. The success of this transformation is reflected in our financial performance. We closed 2017 with an IFRS result of € 6,140 thousand. VIVAT Schade's Solvency II ratio of 162%, impacted by a decrease of the Volatility Adjustment, remained above its internal target.

Over the past year, we made a lot of progress in creating a leading, customer-focused, digital and innovation-driven insurance company. We have optimised our processes, resulting in cost reductions and improvements to service levels. We started the implementation of a unified customer relationship management system, we created one VIVAT Schade marketing database and introduced customer journeys. Also, we have introduced a new retail brand, called nowGo, that focusses on online distribution. VIVAT's main brands, Reaal and Zwitserleven, have launched new propositions and new campaigns.

Our employees have shown their commitment to VIVAT Schade in the past year after the significant change of the organisation. After the transformation, the customer satisfaction levels of our main brands remained stable and intermediaries consistently rank us high in surveys, thanks to the contribution of our employees.

In order to become the most innovative insurer in the Netherlands, we will continue to cooperate with start-ups and accelerators in search for new business opportunities for VIVAT Schade. To accelerate innovation within VIVAT, we opened our own innovation centre, VINCE, in a dedicated start-up environment in Amsterdam. In addition, we invested in data science by cooperating with five universities to start up data programmes for our employees and we started sponsoring several PhD-programmes. Just before year's end, VIVAT received two European awards for its collaborations with start-ups.

We saw positive developments in 2017. VIVAT Schade kept its Combined Ratio below 100% for the first time in several years. Also, VIVAT Schade strengthened its relationship with intermediaries and authorised agents and further rationalised its IT-landscape.

In the fourth quarter of 2017, we have sharpened our strategy for the coming years. We defined the following key themes for the business: Customer Centricity, Digitalisation, Data and Innovation. By focussing on these themes we will be able to serve our customers optimally and further reduce our cost base. In addition, we will continue our efforts in optimising our investment portfolio while maintaining a sound balance sheet management. Furthermore, we will complete the rationalisation of our IT landscape.

I would like to take this opportunity to give sincere thanks to our customers, business partners, investors, employees and all other stakeholders.

Amstelveen, the Netherlands, 29 May 2018

On behalf of the Executive Board of VIVAT Schadeverzekeringen NV,
Ron van Oijen, Chief Executive Officer

VIVAT MILESTONES 2017

January

Innovation

VIVAT 4 kids

The year started with a bootcamp for children of VIVAT employees who were given the opportunity to act as real start-ups for one weekend. In small teams they experienced how to explore and develop new ideas and 'pitch' these for a real audience: their own parents! Startup Kids 4VIVAT resulted from the strategic partnership with Startupbootcamp to boost innovation within VIVAT.

February

Innovation

Innovation Accelerator Programs

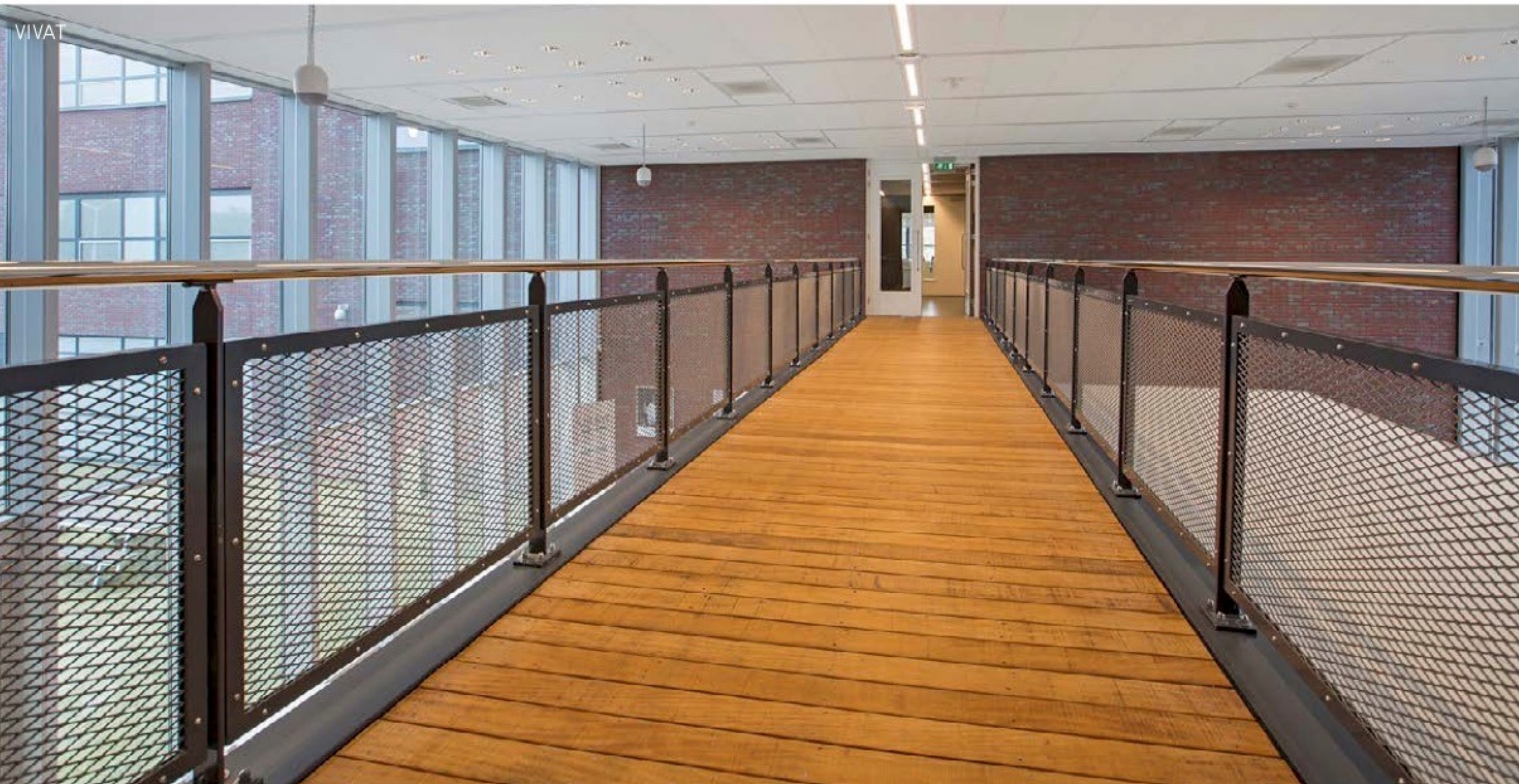
After the children it was time for VIVAT employees to immerse themselves in Innovation Accelerator Programmes at an external location. In three months' time and guided by our partners Innoleaps (Startupbootcamp), OneUp en UtrechtInc., seven VIVAT start-up teams developed and validated their ideas, using the lean start-up method. In order to create an internal innovation ecosystem another group of forty employees from various staff departments completed a Masterclass Innovation.

March

New brand

Reaal Dier & Zorg biggest panda insurer in The Netherlands

The final preparations were made for the arrival of two giant pandas to The Netherlands. Xing Ya and Wu Wen were expected to arrive to Pandasia in April. Their coming coincided with the rebranding of Proteq Dier & Zorg into Reaal Dier & Zorg, that will take care of the animals' life insurance during their stay in Pandasia for the coming years. The 'new' brand gained much media attention for being the biggest panda insurer in the Netherlands.



3. Strategy and Developments

3.1. About VIVAT Schade

VIVAT Schade

VIVAT Schade is a Dutch insurance company that offers property & casualty and disability insurances. VIVAT Schade primarily operates in the Netherlands.

VIVAT Schade generated € 683 million in gross written premiums (GWP) in 2017.

VIVAT Schade's main offices are located in Amstelveen and Alkmaar. VIVAT Schade also has smaller offices in Utrecht, Rotterdam and Assen.

Structure

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. The members of the Executive Board of VIVAT NV are also the members of the Executive Board of VIVAT Schadeverzekeringen NV. Certain topics are managed and controlled from a consolidated perspective. To the extent applicable, information in this board report is therefore presented on VIVAT level.

Anbang Group Holdings Co. Limited, an indirect subsidiary of Anbang Insurance Group Co., Ltd., is the sole shareholder of VIVAT NV.

The chart below shows the total structure of VIVAT and the position of VIVAT Schade in this structure.

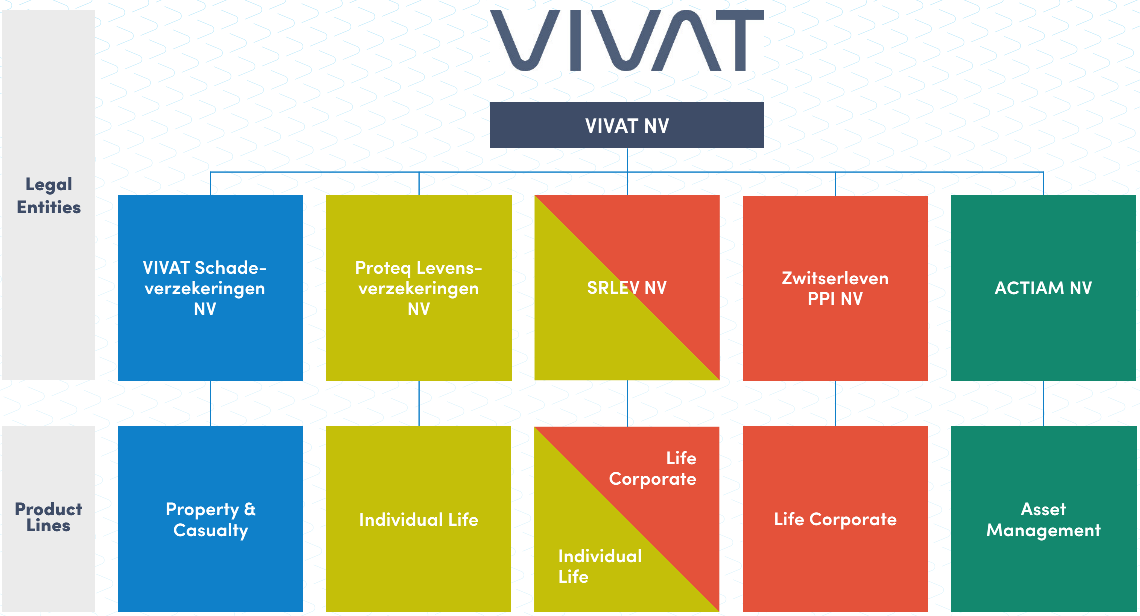


Figure 1: Structure VIVAT

3.1.1. Vision, Mission and Core Behaviors

Our Vision

VIVAT Schade is a leading, trusted and customer-centric financial service provider helping its corporate and individual customers to realise their dreams and insure their risks.

Our Mission

Our mission is twofold:

- VIVAT Schade will deliver a comprehensive product and service offering to our customers.
- VIVAT Schade will leverage the most advanced technologies, resulting in long-term sustainable profitable growth for customers, employees and society at large.

Our Core Behaviors

Customer centricity, data, digitalisation, innovation and a high performance culture are central aspects of the new strategy. VIVAT Schade has also an ambitious task to achieve more for our clients with lower costs. This will ask for a different way of working and changing behavior. For that reason, VIVAT Schade has defined five core behaviors for their employees:

- **Client Focus**
  We think outside-in and use common sense. We always ask ourselves if our decisions are in the best interest of our customers.

- **Change Attitude**
  Our employees have an open mind when it comes to change. We don't accept something just because 'we've been doing this for years'.

- **Immediate Execution**
  Our employees do what they can do today to reach our goals. We break down our plans into specific actions.

- **Take Responsibility**
  We know our company goals and our role in achieving these. Employees do what they have to do. They give feedback to others and help everyone in taking their responsibility.

- **Result Driven**
  We focus on things that clearly help us towards our targets. We finish what we start.

3.1.2. VIVAT Schade's Strategy

VIVAT Schade's strategy is built around the following three focus areas: A. understanding & responding to customer needs, B. making VIVAT Schade future proof, and C. smart application of innovation. These focus areas are tailored to our product line as described in section 3.4 .

Understanding & Responding to Customer Needs

VIVAT Schade offers its customers transparent and easy to understand products that are developed to fulfil their needs. The employees of VIVAT Schade put client interests first, and communicate with them in clear and easy-to-understand language. VIVAT Schade focuses on retail customers, self-employed individuals, small and medium-sized enterprises (SMEs) and corporates (within the pension business). VIVAT Schade puts a lot of effort to improve its services to customers and the intermediaries that advise them continuously. Within VIVAT Schade, customer and intermediary satisfaction levels are closely monitored through a comprehensive dashboard including customer service, intermediary satisfaction and the Net Promoter Score (NPS). The NPS is an important measure in the performance management cycle of VIVAT Schade.

Future Proof Skills & Capabilities

Acting in the best interest of the customers requires skilled and motivated staff. As VIVAT Schade operates in a fast changing environment, we are continuously investing in our people when it comes to knowledge and capabilities. In addition, investing in big data is of great importance. Therefore VIVAT Schade started cooperating with several universities to develop data programmes that will offer VIVAT Schade opportunities to improve our business and processes.

Innovation

Innovation is key for VIVAT Schade. A lot of effort is put in collaborations with start-ups and accelerators in search for new business opportunities. Also VIVAT Schade started organising innovation days for its employees and for intermediaries, to further innovate and create the right mindset. Through VIVAT Schade's own innovation centre VINCE new ideas can be transformed in new products or services.

Four Key Strategic Themes

To steer the company in the right direction, VIVAT Schade has defined four key themes for the whole company. These themes are embedded in the execution and change of VIVAT Schade:

- Customer centricity
- Digitalisation
- Data
- Innovation

VIVAT Schade has specific activities that will help VIVAT Schade move forward.

Specific Activities

The focus is on sustainable profitable growth; lowering the combined ratio, but with a healthy growth ambition. VIVAT Schade believes that the following activities are key:

- Reforming key operational processes to better serve our customers and to reduce costs.
- Dynamic pricing will help us to optimise our portfolio and reduce the combined ratio.
- Offering innovative propositions to grow market share with the use of data and other innovative business partners.
- Seeking opportunities in the market and play an active role to grow in-organically.

In order to fulfil our strategy for VIVAT Schade as a whole, continuous cost reductions are necessary. Applying Robotic Process Automation (RPA) and finalising the rationalisation of our IT landscape will help to achieve this. Further efforts will be made in optimising our investment portfolio to increase our income in the coming years. Inorganic growth will be considered at the right conditions (adding to the bottom line) and when it fits within the business profile, risk profile and strategy.

2017 has shown that VIVAT Schade is delivering on its strategy, helped by the efforts of our employees who are committed to the renewed organisation. VIVAT Schade is confident that it will continue to do so in the future.

3.2. Corporate Responsibility

Corporate Responsibility (CR) follows from VIVAT Schade's vision and mission and forms an integral part of our strategy and business operations. Our core activity is to provide insurance to our customers, this is why we take our role in society very seriously. We started implementing CR in the organisation in 2015. In 2017 we updated our CR strategy and aligned it even closer to our corporate strategy.

3.2.1. Updated CR Strategy

Last year we decided to take our CR strategy to a next level and ensure optimal alignment between VIVAT Schade's corporate strategy and CR strategy. As we launched the updated CR framework end of 2017, some KPIs will need to be finalised in the first quarter of 2018. The reported year reflects this transition, that is why we still report on 'old' CR strategy and KPIs. We will briefly describe the foundation of our 'new' CR strategy that the Board approved late 2017. We provide a comprehensive CR framework that enforces customer-centricity, innovation, digitalisation, efficiency and sustainability within VIVAT Schade. Our CR strategy will guide VIVAT Schade employees in upholding and effectuating our values in the way they work. Our customers are at the heart of everything we do, but we realise that with our brands we also have an impact on- and are impacted by society and our environment.

Our updated CR strategy consists of the following four main pillars:

- Responsible investments
- Customer centricity
- Sustainable operations
- Sustainable results

	Our Corporate Responsibility Strategy			
Strategic CR Pillars	Responsible Investments	Customer Centricity	Sustainable Operations	Sustainable Results
CR Focus Areas	Impact of our Assets on Climate Change	Customer Perception	Carbon Emission Own Organisation	Sustainable Cost Levels
	Impact of our Assets on Land and Water	Customer Service	Employee Satisfaction and HR	Moderate Risk Profile
	Fair Insurance Guide	Customer Quality	Sustainable Procurement & Digitalisation	Solvency

Figure 2: Updated Corporate Responsibility framework

Responsible Investments

As VIVAT Schade we combine our investment expertise with a clear view of the environmental, social and governance (ESG) aspects. We invest responsibly by making sure that our assets meet specific ESG criteria. With a focus on climate, land and water our brands encourage companies to use natural resources in a responsible way. For example, ACTIAM actively engages with companies on issues including deforestation and land grabbing.

We have different tools to influence investor behaviour including impact investing, engagement (dialogues), exerting shareholder voting rights, and exclusion as last resort. For example, ACTIAM has actively engaged with companies on issues such as deforestation and land grabbing. Tobacco, gambling and adult entertainment have been excluded in 2017. Animal welfare has been added to the Fundamental Investment Principles of ACTIAM. Through this approach VIVAT Schade seeks to contribute to the United Nations Sustainable Development Goals (SDGs).

Customer Centricity

In our contact with customers we always want to be relevant and add value. Understanding and responding to customers' needs is of great importance to VIVAT Schade. We ensure transparent pricing, fair conditions and understandable products through our customer centricity programme. Per brand, specific customer centricity themes have been defined. Our ambition is to develop innovative customised portals and apps for all brands to respond even better to our customer needs. We will do this through customer journey based processes, systems and tools.

Sustainable Operations

Besides making sure our investments and customer relations are sustainable, we also want to make sure our own operations are responsibly managed. Our efforts include reducing our carbon emissions, efficient use of paper and waste reduction. It also means VIVAT Schade acts as a responsible employer by promoting vitality, personnel development and sustainable employment relations. We also engage our employees with the latest strategic developments, e.g. by organising Innovation Days.

Sustainable Results

For VIVAT Schade to be future proof it is key to achieve healthy and sustainable long-term results. Within this pillar we focus on activities that impact our customers, shareholders and business including a robust capital position, adequate risk management and achieving sustainable cost levels.

Human Rights Risks

Being a responsible investor, we want to ensure that we do everything we can to safeguard human rights in accordance to international norms and principles. ACTIAM uses its Responsible Investment policies and social criteria to critically assess and if necessary, adapt our investments. In our ESG criteria we have clear policies on responsible land use and related protection of human rights, labour management and supply chain labour standards. ACTIAM supports the UN Guiding Principles on Business and Human Rights and Principles 1 and 2 of the UN Global Compact. ACTIAM is also guided by international norms on fundamental labour rights such as Principles 3 to 6 of the UN Global Compact. This way we want to ensure that we avoid any risks related to human rights in our investments.

3.2.2. Sustainable Development Goals (SDGs)

Performing an update in our CR strategy in 2017, we also analysed to which Sustainable Development Goals (SDG) VIVAT Schade contributes. The SDGs are a collection of seventeen goals aimed at social, economic and environmental development set by the United Nations. The SDGs are interrelated but each goal has its own targets to achieve. The three SDGs to which VIVAT Schade can make the most impact (Goal #8, Goal #12 and Goal #15) are pictured in figure 4, below.

	Relevancy of SDG to VIVAT	Contribution of VIVAT
8 DECENT WORK AND ECONOMIC GROWTH	• VIVAT provides meaningful and decent work to around 2,500 employees. • VIVAT supports customers with sound insurance products that give (financial) security. • VIVAT offers financial services to micro-enterprises and SMEs.	• VIVAT offers rewarding jobs to its employees and supports them in areas like vitality, work-life balance and career development. • Through innovation and digitisation VIVAT aims to achieve higher economic productivity and greater market share.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• VIVAT can encourage its customers to adopt responsible consumption and production practices.	• VIVAT combines investment expertise with a clear view of the environmental, social and governance (ESG) aspects. • With its focus on climate, land and water ACTIAM encourages companies to use natural resources in a responsible way.
15 LIFE ON LAND	• Through responsible investments VIVAT can contribute to the protection, restoration and sustainable use of ecosystems, forests and biodiversity.	• ACTIAM uses its vote in shareholder meetings for sustainable resolutions on e.g. deforestation. • We intensify our engagement with companies on deforestation and land grabbing issues.

Figure 3: VIVAT and Sustainable Development Goals

3.2.3. Value Creation

Creating value for our stakeholders and society is at the heart of our operations and brands. The supply chain forms the basis of the value creation model. In figure 5 we have depicted our supply chain in detail.

Figure 4: Supply chain for VIVAT as a whole

Our visualised model of our value creation process (see figure 6) shows the areas in which we create the most value; in the form of both direct and indirect positive impact and by reducing negative impacts. VIVAT Schade's value creation model also provides an insight into the inputs that are required to make our business model work. In the model external developments and trends are incorporated as they show the larger context in which VIVAT Schade operates and impact on VIVAT Schade's customers.

VIVAT Schade is a Dutch financial service-provider, mainly comprising of insurances under various brand names to both businesses and individuals. Different forms of capital (i.e. human, intellectual and financial capital) go into our business model. Our workforce is situated in the Netherlands. Our customers provide the majority of our financial capital by means of insurance policy premiums. This is a precondition for VIVAT Schade to be able to carry out our core activity: Insurance.

A responsible and sustainable business conduct is of utmost importance to VIVAT Schade. This is reflected in our CR policy framework and our initiatives related to customer centricity, being a sustainable employer, investing in society, adequate risk management and solid financial results. The middle column of the value creation model (see figure 6) show the key figures/KPI's that we used in 2017 to assess the degree to which we achieve these KPI's and other business objectives. It gives a good overview to what extent our strategy is implemented effectively and if it yields the desired output including benefits for our customers and profits for our shareholders.

Looking at impacts, it becomes clear that our asset management activities have an even greater impact compared to our own business operations. We generate more returns by investing the assets that are entrusted to us. This gives financial stability and the means to pay for insurance claims, benefits and pensions in the long run. We want to deliver sustainable performance, therefore our investments must meet specific ESG criteria.

Lastly, VIVAT Schade's products also have an impact because they contribute to the current and future financial security of our customers and, on a higher level, to financial solidarity and economic growth.

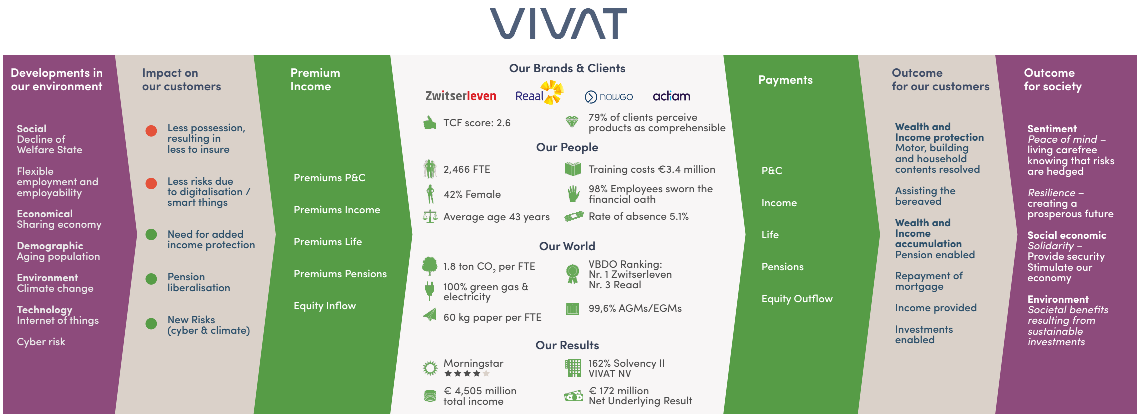


Figure 5: Our Value Creation Model for VIVAT as a whole

As VIVAT Schade we want to contribute to the transition to a low-carbon economy through our own operations and investments and mitigate the environmental risks such as climate change. We critically look at the carbon intensity of our investments by using the different instruments we have in place as an investor.

At the same time we work towards mitigating the carbon emissions of our own operations through amongst others upkeeping our high standards on sustainable buildings, efficient use of resources and environmental management systems.

3.2.4. Transparent Service

Customer centricity is essential for VIVAT Schade's success. We strive to earn and maintain the trust of our customers by being fair and transparent in our approach towards them. This way of thinking and working is embedded in our business.

In doing so, we apply the criteria of cost efficiency, usefulness, reliability and comprehensibility as prescribed by the regulator, the Dutch Authority for the Financial Markets (AFM). This is reflected in so called TCF scores.

The AFM tests whether insurance companies are succeeding in treating customers fairly. In connection with this, the regulator publishes TCF scores on a yearly basis. The AFM's TCF monitor surveys can be used to provide consumers with guidance on making qualitative comparisons. Apart from these scores at industry level we monitor customer loyalty and satisfaction within our company at brand level.

Treating Customers Fairly (TCF)

TCF covers themes that are relevant for customers, such as understandable products, the availability and accessibility of our call centres, and fair pricing. The figures below reflect the score of VIVAT as a whole. On a scale of 1 (low) to 5 (high), VIVAT has an overall score of 2.6, which is lower than the market average of 3.2. (In 2016 we achieved a score of 3.7 against a market average of 3.8.)

TCF scores obtained in subcategories

(Sub)categories	VIVAT score	Average market score
Handling of claims	3.6	3.4
(Aftercare) unit-linked insurance policies	2.6	3.0
Customer contact insurers	4.0	3.8
Complaints management	4.5	4.5
Total score[1]	**3.7**	**3.8**

[1] The average score of the market is based on all examinations and the average of VIVAT only those to which VIVAT participated.

Customer Loyalty and Customer Satisfaction at Brand Level

We monitor customer loyalty and customer satisfaction by measuring various aspects of our service at brand level.

For Customer loyalty we use the Net Promotor Score (NPS), by asking customers one simple question: “Would you recommend us to a friend or colleague?” The score can result in both positive (yes, I recommend this firm) as well as negative percentage scores (no, I do not recommend this firm). Our goal is to improve our service levels in such a way customer loyalty will show positive outcomes in the years ahead. Reaal managed to improve its NPS in 2017.

The customer satisfaction score reflects our customers’ satisfaction again on a scale from 1 to 10 (1 = extremely dissatisfied, 10 = extremely satisfied). The customer satisfaction level of Reaal in 2017 also shows a slight increase while subscores give mixed results.

Simplicity

VIVAT Schade also aims to improve the financial resilience of customers, by helping them to make conscious choices about their financial situation. Simplicity in finance is therefore an important principle for our brand Reaal. This means that Reaal aims to offer products that are clear, understandable and accessible to all, that have no small print and come with friendly service. We communicate this clearly in our product conditions, in letters and on our website. We measure the extent to which our customers feel our communications are transparent and clear. In 2017 we saw a fair increase in the customer satisfaction in this area. According to 74% of the Reaal customers we are succeeding in communicating clear and transparent.

Customer Scores of Reaal

Reaal	2017	2016
Net Promotor Score	-37%	-42%
Customer satisfaction score	7.1	7
Percentage of customers who think communication is transparent and clear	74%	67%
Percentage of customers that perceive products as comprehensible	82%	77%

Customer Privacy and Data Protection

Data protection and the privacy of customer data is of key importance for VIVAT Schade. Customers can trust that their personal data is in safe hands with VIVAT Schade. That is why we have implemented certain policies to protect customer data and customer privacy. The privacy statements as published on the websites of VIVAT Schade and our brands describe the categories of data VIVAT Schade collects, the purposes of the collection of these data and how customers may access such data. Customers can contact VIVAT Schade with requests related to that data in writing. VIVAT Schade also has a policy to handle data leakages to minimise possible damage to customers. The appointed Data Protection Officer is responsible for compliance with the law.

3.3. Our Main Brands

3.3.1. Reaal

Reaal improves the financial resilience of customers by helping them make well-considered choices about their financial situation.

In 2016 Proteq Dier & Zorg was rebranded to Reaal Dier & Zorg, so the brand leader in insurance for pet dogs and cats is now part of the Reaal family.

3.3.2. nowGo

VIVAT's new digital channel nowGo enables customers to buy smart and simple products directly online. Fast, completely tailored and at a competitive price.

NowGo was launched in November and started with its focus on three segments: car, travel and living. As part of the introduction a new unique product was introduced: AirCare, offering the first European short term flight insurance.

3.4. Our Product Line

Property and Casualty

The Property and Casualty (P&C) product line offers property, casualty and disability insurance. Products that enable our customers to say: 'Nicely done' (Dutch: 'lekker geregeld').

Objectives for 2017

The P&C market remains extremely competitive and mature. There is a shift towards online distribution, which makes data analytics more and more important. In view of these developments, one of the objectives for this product line is to become a leading player in the retail sector with a competitive price and a flawless customer experience.

In order to achieve further sustainable profitable growth in this business-to-business market, P&C also focuses on creating durable relationships with distribution partners by developing a strong intermediary proposition for small and medium enterprises. Next to building relationships, focus on profitability remains key and profitability measures will continue in all channels.

After the large reorganisations of 2016, cost reduction measures will be implemented more gradually in light of more automation in our processes. The main goal for 2017 was to improve our data analytics for pricing, attract experts in the P&C field and to drastically simplify the IT landscape.

Achievements in 2017

Organisational Aspects

In 2017, the new operating model and the implementation of the P&C strategy resulted in a Combined Ratio below 100%, which is the first time in several years that this result was achieved.

Commercially, after years of a declining portfolio, VIVAT Schade managed to grow its portfolio premium compared to the previous year. VIVAT Schade profited of improving the relationship with the intermediaries and authorised agents in a time of market consolidation and turmoil. We also observe that competitors are taking profitability measures in these channels that have been implemented by VIVAT Schade in the past. Also, the commercial plan has delivered successful campaigns and events that facilitated the sustainable profitable growth.

Looking back on 2017, some large changes in the P&C business occurred. The implementation of the new operating model, the closing of two locations, the appointment of new management and a reduction of the workforce were all absorbed while we were able to maintain the same service levels to our customers and the intermediaries.

The focus was on rationalising old IT legacy systems through an internal program, that will enable VIVAT Schade to reduce costs, improve the data quality and become more agile. The project is being implemented and three legacy IT systems will be phased out in the coming years. This project also ensured improvement of the data quality.

P&C has also put a lot of effort in refining its pricing and underwriting capabilities for the retail market. In the Dynamic Pricing Program, data is centralised and more effective methods are being used for portfolio management and attracting new business.

For commercial lines, a new commercial product proposition was launched ('Bedrijven Totaal Pakket') in November in close collaboration with our intermediaries. The first reactions and new premium numbers were very positive.

Disability Insurance

Disability insurance yielded profitable and stable results in 2017. Disability managed to maintain its portfolio size in this shrinking market due to a number of successful marketing campaigns. Our Disability department worked hard on process improvements and customer and intermediary satisfaction. The NPS improved to minus 8, which is above average.

3.5. Our People

Our employees are the people who are key for putting our mission and vision into practice. We are a business that serves the financial interests of others, and therefore we require a staff that is fully committed to this task. This means being a responsible employer by promoting sustainable employability (e.g. vitality, personal development) and sustainable employment relations (flexibility, diversity).

Customer centricity and a high performance culture are central aspects of our company strategy. VIVAT Schade has also an ambitious task to achieve more for our customers at lower costs. This will ask for a different way of working and changing our behavior. For that reason, we have defined five core behaviors (Client focus, Change attitude, Immediate execution, Take responsibility and Result driven) for our employees, as described in paragraph 3.1.1.

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. VIVAT Schade's employees are employed by VIVAT. The costs of employees appointed to VIVAT Schade are charged to VIVAT Schade by VIVAT. The information of Our People is presented on VIVAT level.

Key Figures Human Resources

	2017	2016
Number of employees	2,542	3,222
- of which internal	2,060	2,790
- of which external	482	432
Number of employees excluding redundancies related to the reorganisation in 2016	2,473	2,580
Number of FTEs	2,466	3,098
- of which internal	2,022	2,697
- of which external	444	401
Number of FTEs excluding redundancies related to the reorganisation in 2016	2,408	2,498
Ratio male-female	58% / 42%	58% / 42%
Female managers	25%	23%
Female members of senior management	23%	24%
Average length of service (years)	12.7	13.9
Average age (years)	43	44
Full-time/part-time ratio	70% / 30%	73% / 27%
Male / female ratio full-time	72% / 28%	72% / 28%
Male / female ratio part-time	25% / 75%	24% / 76%
Ratio permanent/temporary contract	92% / 8%	95% / 5%
Male / female ratio permanent	60% / 40%	58% / 42%
Male / female ratio temporary	61% / 39%	60% / 40%
Training costs (million)	€ 3.4	€ 4.6
Sickness absence	5.1%	5.1%
Employees who indicate the workload is acceptable[1]	n.a.	n.a.
Percentage of employees that have sworn the bankers oath	98%	97%

1 In 2016 no employee survey has taken place.

VIVAT Schade employs 841 employees at the end of 2017 (2016: 885). Due to outsourcing and reorganisation in 2016 and 2017, our workforce was reduced in 2017.

3.5.1. Employability

At the start of 2017 all reorganisations within VIVAT were finished or were being finished. Several employees who were redundant in 2016 were still listed in Career Plaza where they were supported by offering them career advice and outplacement consultancy. In the course of 2017 almost all of them have left VIVAT. As a result of the reorganisations and people leaving VIVAT voluntarily, there were still many vacancies within VIVAT and VIVAT Schade in 2017. We aim to find people who have an open mindset for contributing to VIVAT's and VIVAT Schade's goals and are change willing and able to move within the company in the future. In this way we will be able to have more mobility within VIVAT in the future.

Personal Development

Due to regulations all employees who advise clients need to have a Wft diploma (Wft stands for: Wet op het financieel toezicht) and need to continuously update their knowledge. Besides that, we challenge our employees with short articles and surveys with questionnaires about relevant topics within their scope, like compliance, life, insurance, etcetera.

Personal development is supported by a learning portal that provides a range of training courses and tools, including 360 degree feedback and a network of coaches.

In VIVAT's Collective Labour Agreement 2017, agreements have been made on applying an annual budget for every employee in VIVAT to spend on his/her own personal development plan. In this way employees are in charge of their own career and development. The annual budget can be spent on an education, course or workshop that adds value to one's employability. Employees can also reserve their budget for three years to save up for a more expensive education.

Training and Education

Training and education continue to be important. Employees are offered the possibility to further develop their skills and knowledge in their own area of expertise as well as their ability to communicate and collaborate with colleagues in other departments.

In our performance management cycle, we address personal development, and managers and employees have career development meetings. Furthermore, ongoing training is provided to keep employees up-to-date in accordance with the requirements of the Dutch Financial Supervision Act. The HR information system informs managers of the status of the necessary diplomas or qualifications of their staff.

VIVAT Schade also invests in training aimed at innovation via the VIVAT Academy. There are two internal data training courses; Basic and Professional. Examples include the state of the art Data Scientist programme at YADS.

Knowledge in the area of innovation is also obtained by means of partnerships and collaboration with start-ups and universities. VIVAT, and therefore VIVAT Schade, partners with startup Bootcamp at B. Amsterdam in the innovation field. Partnership with Rotterdam School of Management Talented students of the Rotterdam School of Management have to opportunity to study and research data analytics as well as digital business development.

Succession Planning

VIVAT Schade uses Career Development Meetings, the Talent Grid and a Mid-Year Review to ensure that critical positions within the company are always filled with competent employees. Succession planning helps VIVAT Schade to ensure our continued success and it helps employees to be prepared for the next steps. On a yearly basis we identify the critical positions and see to it that we have employees on hand ready and waiting to fill the new positions (now, 1–2 years and 3-5 years).

Career Development Meeting

In the Career Development meeting manager and employee discuss the professional, personal development and career options of the employee. All employees have a yearly grow-budget to use for further development.

Talent grid

Based on the Career Development meeting and a Mid-Year Review the manager draws up a Talent Grid of his department. This grid gives insight in how much potential there is in the departments, the business lines and VIVAT as a whole. Based on the Talent Grid, training and development plans are made at VIVAT level and new potentials are being recruited and Succession Planning is made.

Final Planning

Based on the previous steps, the manager makes a Succession Planning for critical positions in his department. He names successors for certain positions and determines if they are ready for the next step or need to develop. The final planning for the entire VIVAT organisation is used to make training and development plans and again for recruiting and retaining talent for VIVAT and VIVAT Schade.

Employment Mobility

Mobility within the company is encouraged and supported. More frequent, employees are being nominated for fulfilling internal vacancies. Furthermore, as part of the restructuring in 2016, tools and support are still provided by VIVAT's Career Plaza for helping employees to find new positions inside or outside the VIVAT and VIVAT Schade organisation.

Vitality

To ensure the health of our employees and keep absences due to illness to a minimum, VIVAT Schade works intensively together with external company doctors and counsellors. VIVAT has changed to GOED as our health and safety service provider. We also offer sports facilities and encourages employees to adopt a healthy lifestyle. The illness figure remained at the same level as in 2016 (5.1%). This figure has increased focus among all managers and Human Resources.

In November VIVAT Schade participated in the national 'Week of work stress'. But at VIVAT Schade we renamed it in the 'Week of job satisfaction' (Dutch: 'Week van het werkplezier'). To emphasise that work should be fun, all employees were invited to participate and learn how to deal with modern day work live: often rushed, full of deadlines, agreements and time pressure. Because work-related stress is national disease number one, recognising stress symptoms is very important. With workshops, information and other activities we raised awareness and gave tools to be more relaxed, energetic, fit and active during work.

Corruption, Money Laundering and Bribery

It is VIVAT Schade's policy to conduct all business in an honest and ethical manner. VIVAT Schade takes a zero-tolerance approach to corruption, money laundering and bribery. VIVAT Schade will uphold all laws relevant to counter these forms of illegal activities in all the jurisdictions in which we operate. VIVAT Schade has an anti-corruption policy in place. This policy describes the principles to counter corruption, money laundering and bribery on which VIVAT Schade must takes adequate measures. A number of measures are (also) taken into account in the code of conduct, pre-employment screening policy, incident policy, whistleblower policy, conflicts of interest policy and procurement policy. The described measures aim to mitigate the corruption risks for VIVAT Schade and its subsidiaries. Any form of corruption that might be detected within VIVAT Schade will be treated as an exceptional report to the EB, SB and regulators.

Although VIVAT has an anti-corruption policy in place, no SMART KPIs have been set yet. With the new CR policies being currently under development, VIVAT is intending to set an anti-corruption key performance indicator in the future in order to better monitor its performance.

3.5.2. Terms and Conditions of Employment

VIVAT Schade's aim to be an appealing employer is reflected in the company's terms and conditions of employment. Variable compensation based on corporate profit is limited. The aim of this policy is to avoid undesired incentives and to ensure that customers are treated fairly in relation to employee remuneration. The pensions of VIVAT Schade's employees have been placed with the SNS REAAL Pension Fund Foundation. This foundation reports independently and publishes its own annual report.

Diversity and Inclusivity

VIVAT Schade's employees can be described as experienced, high educated, loyal to the company and diverse.

It is VIVAT Schade's aim to have a workforce that reflects the composition of its customer base. This includes a good balance between male and female. However, for each vacancy we look at the best candidate for the position, regardless of gender, origin or age. Our management systems provide insight into the male-female ratio on a daily basis.

Diversity in %

In FTE, at year end	2017	2016
Permanent	2,022	2,697
Temporary	443	401
Total	2,465	3,098

3.5.3. Recruitment

In October 2017 we launched a new website, vivat.jobs, to attract new, well educated and motivated personnel. The site contains stories that reflect our main organisational goals, and interviews with a range of colleagues who tell about their work and the challenges they face in their specific position at VIVAT. At the same time we began using a new applicant tracking system to improve the transparency of our recruitment process as well as the implementation of a metric of vacancies. We also started a pilot with the implementation of an Artificial Intelligence (AI) job marketing solution to improve job marketing return on investment.

3.6. Our World

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. For information regarding Our World we refer to the VIVAT Annual Report 2017.

3.7. Financial Results

Main developments in 2017

The net IFRS result improved by € 53.3 million to € 6.1 million compared to 2016, due to an improved technical result. The result 2016, as reported in this annual report 2017, amounting to € -47.119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56.654 thousand). For further explanation see paragraph 6.1.2. Gross premium income increased by 3% in 2017 to € 683 million compared to 2016 (2016: € 666 million). Operating expenses were lower as a result of the 2016 restructuring program.

The net underlying result increased by € 26 million compared to 2016. This improvement was driven by an improved net technical result and lower operating expenses, partly offset by lower underlying investment income. The technical result of 2016 was heavily impacted by the hail storm (impact -/- € 15 million). In 2017 the technical result in, mainly, Motor and Liability improved significantly on the back of a lower claims ratio.

Financial Result

In € millions	2017	2016
> Result		
Gross written Premium Income	683	666
Operating expenses	127	120
Restructuring costs	-	28
Total costs	127	148
Net Result IFRS	6	-47
Net Underlying Result	-	-26

Balance sheet

Total assets of VIVAT Schade decreased by € 0.1 billion to € 1.8 billion. The decrease is mainly caused by lower investments and insurance liabilities. This is a result of increased market interest rate movements.

3.8. Risk and Capital Management

Risk and capital management is more extensively described in Chapter 7 'Managing Risks' in the consolidated financial statements.

Risk Management System

VIVAT Schade implemented a consistent and efficient risk management system in which specific Solvency II requirements such as the key functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. It operates an integrated approach, with risk management integral part of the decision making process.

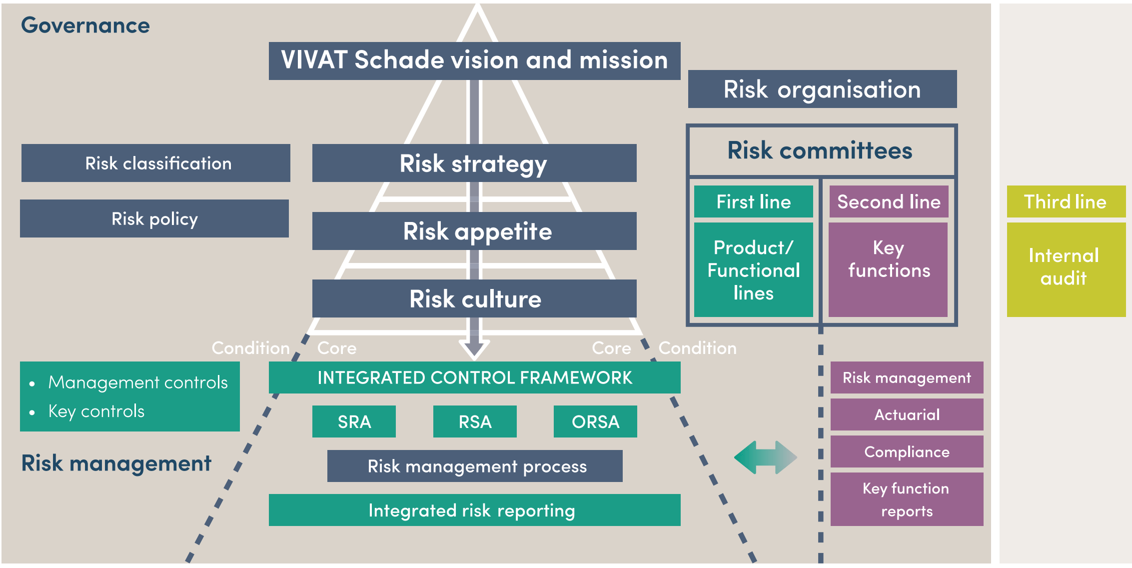


Figure 6: Risk Management

The core of the Risk Management System consists of a governance part at which, starting from the vision and mission and business strategy, the risk strategy and risk appetite are derived. The components risk policy, risk classification and risk organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the second line key functions and the business use the same risk classification, operations are covered by the risk appetite and are aligned by a policy structure. Decision making is in line with VIVAT Schade's risk policy and risk appetite.

Risk Strategy

VIVAT Schade has derived a risk strategy, a supporting set of objectives following from the VIVAT vision and mission to achieve the strategic goals. The risk strategy is expressed in the risk appetite. As main principles VIVAT Schade has defined a robust capital position, stable profitability, prudent and consistent risk policy, regulatory compliancy, social responsibility and effective and efficient customer solutions. As insurance company, VIVAT Schade provides guarantees for future payments to its customers and therefore VIVAT Schade needs a strong capital position. The Executive Board would like to hold a buffer above regulatory capital requirement to absorb temporary volatility and provide more certainty to its customers.

Risk Appetite

The risk appetite, as an integrated part of overall business operations, is set yearly and is subsequently translated into practical risk objectives. Risk appetite is defined at VIVAT level, which includes the Risk appetite of VIVAT Schade. Subsequently it is developed in more detail on the individual legal entity level or specific product or functional lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the product lines for establishing operational plans, taking into account the set risk appetite and corresponding limits. With those objectives and constraints as starting point, the product lines optimise risk and return by developing the best possible products and services.

Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. VIVAT Schade has awareness programmes in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. Furthermore, VIVAT Schade ensures that senior management and employees on key functions are fit and proper to fulfill their job. Finally, VIVAT's remuneration policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

Risk Organisation

VIVAT implemented the 'Three Lines of Defence' control model (3LoD) including the Solvency II key functions and a risk committee governance structure. It contributes to the strengthening of the risk culture, taking responsibility for managing risks and internal control, and eventually to the further optimisation and integration of the risk management.

Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management & process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and VIVAT Schade's risk appetite. During 2017 VIVAT Schade finalised implementation of the Integrated Control Framework consisting of process and management controls. The controls enable the identification of gaps in the control framework and monitoring on follow-up using a standardized approach. Key control testing, retesting by second line risk and reporting on key control results is now supported by tooling in which the management key controls are also incorporated. Further improvements to the Integrated Control Framework will be made.

Underwriting and ALM

VIVAT Schade assesses underwriting risks by following the Product Approval and Review Process (PARP) for new or adjusted products and management of the existing portfolio. VIVAT Schade mitigates underwriting risks primarily by means of diversification and reinsurance. The reinsurance programme is determined on the basis of risk assessments of the various portfolios, the size of the portfolios, the nature of the underwriting risks, the profit or loss, the risk appetite and the financial strength of the company.

The Asset and Liability Management (ALM) policy covers the management of market risk, counterparty default risk and liquidity risk. The starting point for the ALM policy is the ALM study, which is drawn up annually. The ALM study seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, and laws and regulations, and is performed at the end of the year. This ALM study is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM, taking into account the risk limits based on the Risk Appetite Statements (RAS), solvency, the tax position and the long-term risk exposure. Investments are made in accordance with the prudent person principle taking into account the interests of the policyholders. The prudent person principle is part of the ALM policy. Investments are made exclusively in assets and instruments whose risks are properly identified, measured, monitored, managed, controlled and reported.

Developments

In 2017, VIVAT Schade has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. The continued focus on cost reduction and revenue models could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT risk framework to maintain a sound and controlled organisation.

In order to realise more efficiency, VIVAT Schade has defined the target IT landscape and has made non-target systems redundant – this rationalisation will continue in 2018. In addition, VIVAT Schade has reduced its number of models in 2017, lowering model risk. This contributes to a more efficient and reliable valuation of underwriting and market risks and the determination of the solvency ratio. By following a risk based model validation calendar, we have been able to confirm that model improvements led to further reduction of model risk. Uncertainty arising from the remaining conversion projects was mitigated by continuous monitoring, applying workarounds and adopting a process for early provisioning in the accounts.

VIVAT Schade continues to invest in the development of the control environment by the strategic programmes such as Data management and Risk Model Landscape. By doing so we are aiming to improve process controls, management information, risk management policies and first line risk maturity.

Due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation - further: GDPR) privacy risks have become more relevant. Therefore ITC has set up a broad privacy programme to make VIVAT Schade compliant with current privacy regulations. VIVAT Schade is aware of the increasing strategic importance of collecting, managing and using data. Currently we are implementing a sustainable design for Data Governance to manage and monitor the diverse data related initiatives, taking into account all the relevant legislation, e.g. GDPR.

Capital Management

Capitalisation refers to the extent to which VIVAT Schade and its underlying legal entities have capital to cover unforeseen losses and to achieve the strategic objectives of the company. The required capital of VIVAT Schade has to meet internal risk appetite standards as well as external requirements of regulators, rating agencies and also includes commercial considerations. Capitalisation generally refers to the relationship between risk-bearing activities and available regulatory capital (own funds).

The objective of the capital policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet legal requirements. The second objective of the capital policy is to ensure capital is used as efficiently and flexibly as possible to facilitate the implementation of VIVAT's strategy. In addition to the capital policy, a recovery plan exists which describes the procedure that applies in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of VIVAT in its current form. In its risk appetite statements, VIVAT Schade has defined specific triggers that determine whether a contingency situation exists. The ORSA is an integral part of VIVAT Schade's management control cycle. It is input for the operational plan and capital management and is used in determining the risk appetite. In 2017 VIVAT Schade concluded that the Solvency Capital Requirement (SCR) was appropriate and that the solvency was sufficient.

Solvency II

Under Solvency II, the supervision of the risks to which an insurer is exposed and the management of those risks play a central role. The financial requirements reflect the risks to which insurers are exposed. Moreover, Solvency II aims to be in line with market developments and the internal risk management systems used by insurers.

VIVAT Schade discloses its solvency position and financial condition on a Solvency II basis by means of public reports as required by law. Solvency II applies to VIVAT Schade as an independent authorisation holder.

VIVAT Schade calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. VIVAT Schade does not apply the Matching Adjustment.

Solvency II position

In € millions/percentage	2017[1]	2016
Total eligible own funds	570	554
SCR	351	365
Solvency II ratio	162%	152%

1 Regulatory Solvency II ratio is according to Solvency II 2017 report

The internal risk limit for the Solvency II capital ratio on VIVAT Schade level amounts to 140%. When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement. Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for VIVAT Schade.

VIVAT Schade is focusing on improving capital generation by re-risking, improving its combined ratio and value of new business, and further optimising its risk profile taking into account its risk appetite. Optimising will also decrease the spread risk which originates from differences between the VIVAT Schade asset portfolio and the reference portfolio of the Volatility Adjustment (VA).

The process of reducing the spread mismatch between assets (mainly German and Dutch government bonds) and liabilities (mainly swap plus Solvency II Volatility Adjustment) started in 2016. The basis risk was further mitigated during 2017 by replacing long duration German and Dutch government bonds by swaps combined with short duration government bonds.

Managing Sensitivities of Regulatory Solvency

In addition to underwriting risks, important market risks are interest rate risk and spread risk (credit spreads). Sensitivity to interest rates is measured by means of a parallel movement in the yield curve.

The Ultimate Forward Rate (UFR) of 4.2% prescribed by the European Insurance and Occupational Pensions Authority (EIOPA) also introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year. This will have a negative impact on solvency and IFRS results .

The solvency of the Life Insurance portfolio is sensitive to changes in the parameters used for calculating the market value of insurance liabilities. These relate to mortality risk, longevity risk, expense risk and surrender risk, since these insurance risks proved to have most impact on the calculation of SCR. The Non-Life business is sensitive to changes in the disability ratios.

Quantitative information about risks and related sensitivities for both Solvency II and IFRS have been described in chapter 7 'Managing Risks' in the consolidated financial statements.

April	May	June

Innovation

Demo Day

At Demo Day the seven VIVAT start-up teams came back to VIVAT headquarters to pitch their ideas to an audience of VIVAT employees and the VIVAT Innovation Board. They could all choose their top 3 ideas. The pitches with the most votes were given the green light to further develop their ideas. Demo Day eventually led to the successful launch of several products and brands, such as ‘Vigi’, ‘Financieel Vitaal’ and ‘nowGo’.

New campaign

A new campaign for Zwitserleven

Zwitserleven launched a new campaign called *Roadtrip,* in which well-known Zwitserleven ambassador Chris Zegers makes real journeys and discovers new places. During his road trip, Chris’s path regularly crosses that of actress and Emmy Award winner Maryam Hassouni.

Award

5xVBDO

For the fifth year in a row Zwitserleven was awarded the most socially responsible pension insurance company in the Netherlands. The Dutch Association of Investors for Sustainable Development (VBDO) each year compares and evaluates the sustainability of the investment policy of the thirty biggest Dutch insurance companies. Zwitserleven already held the highest scores in 2012, 2013, 2014 and 2015. (VBDO didn’t give out any awards in 2016.)

VIVAT Alkmaar

4. Corporate Governance

VIVAT Schadeverzekeringen NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV, which holds 100% of the shares in VIVAT Schadeverzekeringen NV. VIVAT Schade has a two-tier board structure consisting of an Executive Board (EB) and a Supervisory Board (SB).

VIVAT Schade is a matrix organisation with both product and functional lines focusing on sustainable profitable growth. The governance model of VIVAT Schade reflects this matrix organisation with product lines being sponsored by various board members and functional lines included in the various product line management teams. This allows control at the level of management teams facilitating the product lines, risk and finance to work together at this level. At the level of the board, sponsorship by each EB member of product and functional lines ensure that they are closely involved in the business of the company.

4.1. The Executive Board

The Executive Board is responsible for the strategy and management of the company. The Executive Board as of 31 December 2017 consists of the following:

Composition, Appointment and Role

Name	Nationality	Position	Date of appointment
J.J.T. (Ron) van Oijen	Dutch	Chief Executive Officer	14 March 2016
Y. (Yinhua) Cao	Chinese	Chief Financial Officer	23 October 2015
L. (Lan) Tang	British	Chief Risk Officer	26 July 2015
W.M.A. (Wendy) de Ruiter-Lörx	Dutch	Chief Commercial Officer	24 May 2016
X.W. (Xiao Wei) Wu	Chinese	Chief Transformation Officer	26 July 2015
J.C.A. (Jeroen) Potjes	Dutch	Chief Operating Officer	24 May 2016
F. (Feng) Zhang[1]	Chinese	Chief of Staff	26 July 2015

[1] Mr Zhang resigned as per 11 April, 2018.

J.J.T. (Ron) van Oijen (1961) is chief executive officer. He obtained a master's degree in actuarial science at the University of Amsterdam, followed by an advanced management programme at the Wharton Business School. Van Oijen started his career at Aegon and ING in the Netherlands. He subsequently worked as chief executive officer of ING Life and ING Bank in the Czech Republic and Slovakia for four years. In Seoul and Hong Kong he lead the large ING Life branches in India, Thailand and South Korea as regional chief executive officer, after which he was appointed as chief executive officer of AIA Thailand. Van Oijen is also a member of the board of the Association of Insurers and president of the Royal Actuarial Association of the Netherlands. In 2017 he was appointed as chairman of the supervisory board of football club NEC.

Y. (Yinhua) Cao (1975) is chief financial officer. He has a bachelor's degree in international finance from the Shanghai University of Economics and Finance. Cao started his career in the financial service sector at PricewaterhouseCoopers in 1998. He was the lead audit partner for large insurance companies and asset management companies, and as the lead partner, he was also involved in various finance and solvency consulting programs for insurers. His last position with PricewaterhouseCoopers was the partner of the financial service group. At Anbang, he commenced as managing director of Anbang Asset Management Hong Kong and finance director of the Anbang Insurance Group Co., Ltd.. Cao is also a member of the financial and economic committee of the Association of Insurers.

L. (Lan) Tang (1974) is chief risk officer of the Executive Board. He has a bachelor degree in engineering from Beijing University of Aeronautics and Astronautics and a master degree in actuarial science from Central University of Finance and Economics in Beijing. Tang is a qualified actuary of the United Kingdom. He worked as a consulting actuary for an actuarial consulting firm in London, after which he worked for a global actuarial consulting firm in Hong Kong and an accounting firm in China. In 2010, he started to work as the chief actuary of Anbang Life, where his last position was the deputy general manager and chief actuary of Anbang Life. Tang is also chairman of Fidea NV, as well as a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen. He is also a non-executive director of Bank Nagelmackers NV.

W.M.A. (Wendy) de Ruiter-Lörx (1973) is chief commercial officer of the Executive Board. She holds a master's degree in business economics from Erasmus University Rotterdam. She also completed a master's in management & organisation at TIAS Business School in Tilburg. She started her career at ING and Nationale Nederlanden, where she worked for 15 years, fulfilling various managerial roles in operations and product and process management at both Nationale Nederlanden and ING Bank. Her most recent position at Nationale Nederlanden was that of director of retail clients. De Ruiter-Lörx joined Reaal Life as a unit manager in 2012. Two years later, she was appointed director of Reaal's life business in charge of life policies and mortgages. De Ruiter-Lörx is a member of the distribution committee of the Association of Insurers.

X.W. (Xiao Wei) Wu (1980) is chief transformation officer of the Executive Board. She has a bachelor's degree in international finance from the University in Fudan, China, and a master's degree in business administration from China Europe International Business School in Shanghai. She worked as associate principal at McKinsey Shanghai, for the insurance sector in Asia. In 2012, Wu commenced at the Anbang group of companies and subsequently worked as director of strategy, director of IT and director of risk. Wu is non-executive member and chairwoman of Anbang Belgium Holding NV and Bank Nagelmackers NV.

J.C.A. (Jeroen) Potjes (1965) is chief operating officer of the Executive Board. He earned a master's degree in econometrics from Erasmus University Rotterdam as well as a doctorate in economics from the same university. Potjes joined ING Verzekeringen in 1992; he started out at the head office before being assigned to Japan between 1997 and 2001 and to Hong Kong until 2008; in Hong Kong, he served as chief financial officer of the insurance business and asset manager of ING Asia Pacific. He returned to the Netherlands in 2008, when he became responsible for the risk management practices of the global insurance business of ING and subsequently NN Group. During this period, Potjes also sat on the supervisory board of ING Re, ING's reinsurance business. Potjes joined Anbang in 2015, one of his roles being that of non-executive director of Anbang Belgium Holding NV. Potjes is also a member of the committee life insurance of the Association of Insurers and a member of the board of SIVI.

F. (Feng) Zhang (1979) is chief of staff of the Executive Board. He has a master's degree in business administration from the University of Northumbria at Newcastle and a bachelor's degree in literature from Wuhan University, China. Zhang joined Anbang in 2005, worked as director of claims, underwriting, sale and marketing and human resources. In 2011 he commenced as deputy general manager of Anbang Property and Casualty Insurance. His last positions were general manager of Anbang Property and Casualty Insurance, director of Anbang Life Insurance, director of Anbang Annuity Insurance and chairman of the board at Anbang Property and Casualty Insurance. Mr Zhang resigned as per 11 April, 2018.

Governing Rules

VIVAT Schade adheres to the Code of Conduct of Insurers 2015.

VIVAT Schade aims to have gender balance of having at least 30% men or 30% women on the board of directors. In case of a vacancy, we will always aim to find the best candidate for the position. When more candidates show equal qualities, we will give preference to a woman or a man, if that means we can reach our intended gender balance. Currently VIVAT Schade has close to 30% females on the board.

The governing rules of VIVAT Schade are set out in the articles of association and regulations of the Executive Board of VIVAT Schade. Under the articles of association and regulations, certain decisions of the Executive Board are subject to the approval of its shareholder and/or the Supervisory Board of the relevant company or companies. The members of the Executive Board of VIVAT NV are the same as the management board members of VIVAT Schadeverzekeringen NV, SRLEV NV and Proteq Levensverzekeringen NV. This means that the shared management principle has been implemented at all management levels.

As part of the continuing education programme of VIVAT Schade, the Executive Board members participate in various education sessions. These sessions are sometimes attended together with the Supervisory board members or with senior management of VIVAT Schade and are provided by internal and external speakers. The continuing education programme this year included sessions such as PRIIPS, GDPR, inducements, Data analytics and cybercrime.

VIVAT NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV. The Chinese regulator China Insurance Regulatory Committee (CIRC) announced on Feb 23, 2018 that it is temporarily taking over the management of Anbang. VIVAT has taken notice of this.

4.2. The Supervisory Board

Composition, Appointment and Role

Name	Nationality	Position	Date of appointment
M.W. (Maarten) Dijkshoorn	Dutch	Chairman	23 December 2016
M.R. (Miriam) van Dongen	Dutch	Member	26 July 2015
M. (Ming) He	American	Member	26 July 2015
K.C.K. (Kevin) Shum	British	Member	26 July 2015
P.P.J.L.M.G. (Pierre) Lefèvre	Belgian	Member	26 July 2015

M.W. (Maarten) Dijkshoorn was appointed as chairman of the Supervisory Board on 23 December 2016. He is a member of the remuneration and nomination committee, a member of the risk committee and a member of the audit committee. Dijkshoorn has worked in the financial services industry for more than 40 years. From 2002 to 2009, Dijkshoorn was chief executive officer and chief operational officer of Eureko BV (Achmea). Prior to that, Dijkshoorn held various management functions within Nationale-Nederlanden for 25 years. He was, until recently, supervisory board member of Monuta and MediRisk and chairman of the supervisory board of de Goudse Verzekeringen NV.

M.R. (Miriam) van Dongen was appointed as member of the Supervisory Board on 26 July 2015. She is chair of the audit committee and member of the risk committee and member of the remuneration and nomination committee. She has over 20 years of experience in corporate finance, business strategy and in the financial services industry. In 2007, Van Dongen joined Achmea BV/Eureko BV as chief financial officer of the health division. She holds various supervisory board positions and is the chair of the audit committees of these supervisory boards. Van Dongen currently serves as supervisory board member and the chair of the audit committee of CB Logistics and PGGM NV. She is also member of the supervisory board and the chair of the audit committee of Optiver. Recently, she has been appointed member of the Supervisory Council and chair of audit committee of The Netherlands' Kadaster (Land Registry) and board member of Stichting Administratiekantoor Aandelen KAS BANK.

M. (Ming) He was appointed as member of the Supervisory Board on 26 July 2015. He is member of the audit committee. He went to Chengdu University of technology in China for his college education and completed a bachelor degree in 1982. He obtained a master's degree at Bowling Green State University in 1992 and a MBA at the American Graduate School of International Management in 1998. He started his career at the Superior Environment Corporation in 1992 as an environmental engineer. In 2009, he joined Anbang Insurance Group Co., Ltd. as chief investment director of Anbang Property & Casualty Insurance Co., Ltd. In 2012 he was appointed as director and general manager of Anbang Asset Management. He is chief executive officer of AB Win Win II (LP).

P.P.J.L.M.G. (Pierre) Lefèvre was appointed as member of the Supervisory Board on 26 July 2015. He is chairman of the risk committee and member of the audit committee. After his studies in mechanical engineering and industrial administration, Lefèvre became internal auditor at Unilever before joining AXA Belgium NV in Belgium as a financial controller. He continued his career with AXA Belgium as general manager for Individual Life and later on as general manager for P&C Personal Lines. In 1994, he moved to AXA United Kingdom plc. as chief executive officer of the P&C insurance business and was subsequently appointed chairman of the board. In 1998 he was appointed as chief executive officer of AXA Netherlands. Between 2002 and 2013 Lefèvre fulfilled various chief executive officer roles in subsidiaries of Groupama SA Since 2013. Lefèvre has acted as independent non-executive director and chair of the risk committee of Hasting Insurance Group Holdings PLC and, since 2014 as senior advisor of Eurohold Corporate Finance, SL. He also serves as an independent non-executive director and chairman of the risk committee of Advantage Insurance Company Limited and as non-executive director of Anbang Belgium Holding NV. He is also an independent non-executive director, member of the nomination and governance committee and chairman of the audit, risk and compliance committee of Fidea NV.

K.C.K. (Kevin) Shum was appointed as member of the Supervisory Board on 26 July 2015. He is chair of the remuneration and nomination committee and member of the risk committee. Shum joined Anbang Insurance Group Co., Ltd. in March 2014. With over 20 years' experience in the financial industry, Shum is a qualified solicitor of England & Wales, a solicitor of Hong Kong, a member of the Chartered Institute of Arbitrators in the U.K. and is a Chartered Financial Analyst in the U.S. Prior to joining Anbang, Shum worked as a private practitioner at Coudert Brothers LLP and Jun He Law Offices, as counsel for private equity firm Alliance Capital Asia Limited and a hedge fund of CCIB Asset Management Co. Limited. He currently serves as Executive Director, Legal and Compliance, for Anbang Overseas Holdings Co. Limited, is a non-executive director of Fidea NV (chair of governance, nomination and remuneration committee) as well as a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen.

Meetings of the Supervisory Board

The Supervisory Board meets on a regular basis in accordance with an annual schedule. The Supervisory Board has drawn up regulations that elaborate and expand on a number of provisions from the articles of association. These regulations set out additional powers. All members of the Supervisory Board have declared their acceptance of the substance of these regulations and have undertaken to abide by the rules contained therein.

4.3. Report of the Supervisory Board

Functioning of the Supervisory Board

The Supervisory Board aims to have a strong representation of diversity in terms of experience, gender, age, professional and cultural background. In accordance with the regulations of the Supervisory Board, the Supervisory Board considers complementarity, collegial collaboration, independence and diversity to be conditions for a proper performance of duties by the Supervisory Board.

All members have confirmed the moral and ethical conduct declaration, which includes the need to make a balanced assessment of the interests of customers, shareholder, bondholders, employees and the society in which the company operates. The regulations of the Supervisory Board explicitly provide that the Supervisory Board shall strike a careful balance between the interests of the company's stakeholders, such as the clients of the company, shareholder and employees.

Self-assessment

The Supervisory Board carries out a self-assessment once every three years facilitated by an external consultant. This was done in 2016. The Chairman of the Supervisory Board will, regarding the year 2017, conduct individual interviews with Supervisory Board and Executive Board members to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors and the relationship with the Executive Board during 2017.

Continuing Education

Members of the Supervisory Board are encouraged to maintain their expertise at the required standard and enhance it where necessary. In this context, a program is compiled for the Supervisory Board every year. Each year the Supervisory Board members take at least three training courses within the framework of continuing education. The continuing education program relates to relevant developments within VIVAT Schadeverzekeringen NV and the financial sector, corporate governance in general and of the financial sector in particular, customers, integrity, risk management, financial reporting and audit. The participation of the members of the Supervisory Board in the programme was monitored.

These continuing education sessions included – amongst others – topics on Cyber Security, IFRS 9, Risk Appetite Statement, Deep dive financials and pensions.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board were every six weeks and several additional meetings and conference calls were held. The attendance rate at meetings and committees is high, demonstrating the strength of the Supervisory Board's commitment. None of the Supervisory Board members were frequently absent at these meetings and meaning that there was always a valid quorum.
During the formal meetings the Supervisory Board was updated on strategic activities and topical issues. Furthermore, the Supervisory Board was briefed on the discussions and resulting recommendations from Supervisory Board committee meetings. Twice a year the Supervisory Board had business reviews with all product lines to discuss their business activities and key initiatives.

In 2017 the Supervisory Board discussed and approved several items, such as:

- Debt issuance
- Re-risking program
- Strategy update
- Risk Appetite
- General Data Protection Regulation
- Investment insurance policies
- Operational Plan

The Supervisory Board and the Chairman of the Supervisory Board had regular contact about these subjects with other stakeholders of VIVAT Schadeverzekeringen NV, the Dutch Central Bank (DNB) and Dutch Authority for Financial Markets (AFM).

Cooperation with Committees

The Supervisory Board has three committees: the Audit Committee, the Risk Committee and the

Remuneration and Nomination Committee. Each member of the Supervisory Board has sufficient knowledge and experience to assess the main aspects of VIVAT Schade's policy and to form an independent opinion of the basic risks. Decisions regarding risk management and risk control are prepared and recommended by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees are carefully composed where at least two members of these committees have knowledge of risk management / risk control and internal control / reporting respectively. The Audit Committee discussed the audit scope, key audit matters, the external auditor's report and the management letter of the external auditor. The independence of the external auditor and fees were also reviewed by the Audit Committee. The Audit Committee maintains regular contact with the external auditor by meetings between the chair of the Audit Committee and the external auditor.

The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on remuneration regarding Identified Staff and employees in control functions. The ReNomCo members have sufficient expertise with regard to remuneration policies, culture and incentives.

Cooperation between the Supervisory Board and the committees was positive. The meetings of the committees drill down into the subject matter so that the decisions of the Supervisory Board can be carefully prepared. The substance of the meetings of the committees is fed back to the meeting of the Supervisory Board to ensure that the supervisory directors are kept fully informed and are well positioned to take prudent decisions.

The Supervisory Board wants to thank the Executive Board and all employees for their efforts in 2017. Special word of thanks to Mr. Feng Zhang. During his period as member of the Executive Board Mr. Feng Zhang supervised certain staff functions of the company. The Supervisory Board thanks Mr. Feng Zhang for his dedication and contribution to setting up an efficient, customer-oriented organisation and his contribution to the substantial cost reductions.

Amstelveen, the Netherlands, 29 May 2018
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.4. Remuneration

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. VIVAT Schade's employees are employed by VIVAT. The costs of employees appointed to VIVAT Schade are charged to VIVAT Schade by VIVAT. The remuneration information in this paragraph is presented on VIVAT level.

Remuneration Policy

The remuneration policy of VIVAT also applies to all employees of VIVAT Schadeverzekeringen NV. The remuneration policy consists of several remuneration policies for different groups within VIVAT and VIVAT Schade, such as CLA employees and above-CLA employees.

Principles

The different remuneration policies:

- reflect the interests of all the company's stakeholders: customers, employees, shareholders and society at large;
- are in line with, and contribute to, robust and effective risk management whilst not encouraging the taking of inappropriate risks than acceptable for the company's risk appetite;
- support the ability to attract and retain qualified people.

Governance

The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of VIVAT Schadeverzekeringen NV. The Supervisory Board is responsible for approving the remuneration policy for above-CLA employees and also approves the principles of the remuneration policy for other employees. The general meeting is responsible for adopting the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The remuneration policies are based on and in line with the Regulation on sound remuneration policies Wft 2014 (Regeling beheerst beloningsbeleid Wft 2014) and the Act on Remuneration Policies of Financial Enterprises (wet Beloningsbeleid Financiële Ondernemingen, WBFO) as included in the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht, Wft).

The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on remuneration regarding Identified Staff and employees in control functions as mentioned hereafter. This includes decisions that may have consequences for the risks and risk control of the company which the Supervisory Board takes, as proposed by the Working Group Identified Staff. The Working Group Identified Staff (WGIS) comprises three members of the Executive Board, the heads of Financial Risk, Non Financial Risk/Compliance, Audit, Human Resources and Legal. Where necessary, the ReNomCo is assisted by independent remuneration experts. The Executive Board is responsible for the implementation of the remuneration policies.

Identified Staff

Every year, VIVAT designates members of staff (also for VIVAT Schade) who are Identified Staff on the basis of applicable laws, rules and regulations (the open-book-criteria of DNB). VIVAT has implemented the specific rules regarding variable remuneration for such Identified Staff. Employees who are Identified Staff are determined once a year and approved by the Supervisory Board.

Composition of Remuneration

Remuneration of all employees is made up of fixed and variable pay.

Level of Fixed Remuneration

Fixed pay is generally made up of 12 times an employee's fixed monthly salary, plus 8% holiday allowance and a 13th-month payment. The fixed monthly salary depends on the employee's role, knowledge and experience. A decision as to whether to increase the fixed monthly salary is made once a year, on the basis of a competence assessment. The fixed monthly salary is based on applicable salary scales.

Level of Variable Remuneration

The maximum levels of variable compensation as defined by WBFO are applicable for all employees. Pursuant to the WBFO, the variable remuneration of an employee of a financial undertaking may not exceed 20% of the fixed remuneration.

For all employees, the performance management cycle started with setting the performance targets in the first quarter of 2017. These targets are in line with the company targets and the company's mission and vision. For all employees two general targets were set: One regarding customer satisfaction (the Net Promoter Score) and one financial target. The financial target for the Product lines was: commercial success and, for the Functional lines: cost management. At least 50% of the KPIs set were non-financial related KPIs. For employees in control functions such as Risk, Audit and Compliance departments, no financial KPIs were set.

The extent to which the performance targets have been achieved by an employee is used as the basis for determining if an employee is eligible for variable remuneration and to which level.

A downward adjustment will be made if the employee has not met relevant standards in respect of competence and appropriate conduct, or was responsible for behavior that led to a material deterioration in VIVAT's and/or VIVAT Schade's financial position (Wft Section 1:127, Subsection 2).

In addition to the above, in 2017 two knock out criteria applies for the awarding of variable remuneration: Solvency II ratio and IFRS Result.

For CLA employees, variable remuneration is paid in cash. Variable remuneration for Identified Staff is split in two portions: an immediate/unconditional portion (60%) and a deferred/conditional portion (40%). 50% of the variable remuneration of

Identified Staff is paid in cash and 50% in share based instruments.

Number of Employees with Total Remuneration Exceeding € 1 million

In 2017, one employee received a total remuneration exceeding € 1 million.

Variable Remuneration for the Year 2017

In 2017, no variable remuneration is paid for 2017.

Claw Back on Variable Remuneration

VIVAT has the power to claw back all or part of any variable pay awarded (Section 135(8), Book 2 of the Dutch Civil Code in connection with Wft Section 1:127 Subsection 3). Whole or partial claw back will take place if the employee has not met relevant competence standards and standards for appropriate conduct, or was responsible for behavior that led to a material deterioration in the financial position of VIVAT and/or VIVAT Schade. This claw back may relate to both the immediately payable portion and the deferred portion of the variable remuneration.

Pension

Nearly all employees are members of the same pension scheme. The scheme qualifies as a defined contribution scheme for IAS 19 purposes. The contributions are paid by VIVAT Schade and employees respectively as employer and employee contributions. Due to the changes in the tax law on pension accruals for salaries above the pensionable salary an allowance of 16.35% on an employee's pensionable salary in excess of € 103,317 has been paid.

Other Benefits

The majority of above-CLA employees are eligible for a lease car or a lease car allowance. In 2017, VIVAT NV changed its lease policy which limited leasing of cars to those with less than 106 gram CO2 emissions. In addition, the group eligible for a lease car has diminished. As part of VIVAT's commitment to impact investment principles, certain types of cars and certain brands are no longer included in this policy.

Special Arrangements on Employee Benefits

At VIVAT, special arrangements for employee benefits refer to retention and/or welcome bonuses and material redundancy packages. VIVAT exercises great restraint when agreeing such arrangements. Such arrangements may be agreed only if they are in accordance with legislation and regulations.

Actual Remuneration (former) Members of the Executive Board and the Supervisory Board

Reference is made to Note 15 Related parties (Intragroup balances with key management personnel of VIVAT Schade) for the actual remuneration (former) members of the Executive Board and the Supervisory Board.

July

Innovation

Innovation Days

Innovation is important to VIVAT as it will help us make a difference for our customers. Therefore it is crucial that all VIVAT employees acquire at least basic knowledge about innovation. During the VIVAT Innovation Days employees were brought up to speed with innovation trends and its impact, and aligned with VIVAT's innovation strategy. A separate day was organised for intermediary.

August

Durability

BREEAM durability certificate

After the summer we started the final sprint to make our Torenburg office in Alkmaar ready for the BREEAM durability certificate. With a score of three stars for assets, four stars for maintenance and three stars for usages this office reaches the highest durability score in the city of Alkmaar. Since our headquarters in Amstelveen had already met the durability standards, VIVAT now has two BREEAM certified offices, keeping us on track with our goal of bringing down our carbon footprint and being a company that takes on its environmental responsibility.

September

New campaign

'Lekker geregeld'

Well-known Dutch biologist Freek Vonk appeared in a new commercial for insurer Reaal, aside a giant panda. The real star in the commercial however is Freek's mother. She is the driving force behind her son, the person who takes care of Freeks insurances, so he can go off to explore wildlife. With this new campaign Reaal is putting the spotlight on the people who arrange things, to doers, the ones that one can always depend upon. Reaal and the intermediary claim that role in people's lives, so they can do the things they enjoy, knowing that things are well taking care of.

VIVAT Alkmaar

Financial Statements

5. Consolidated Financial Statements

5.1. Consolidated Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2017	31 December 2016	1 January 2016
> Assets				
Intangible assets	1	1,044	3,648	20,750
Investments in associates		–	6,886	6,501
Investments	2	1,567,226	1,635,537	1,614,618
Derivatives	3	18,511	30,292	9,254
Reinsurance contracts	9	89,965	119,053	114,909
Corporate income tax		10,886	17,723	26,401
Assets held for sale	4	7,335	–	–
Other assets	5	70,821	48,672	39,347
Cash and cash equivalents	6	45,957	53,043	60,517
Total assets		**1,811,745**	**1,914,854**	**1,892,297**
> Equity and liabilities				
Share capital[2]		10,898	10,898	10,898
Share premium reserve		398,823	398,823	398,823
Fair value reserve		75,379	87,864	79,882
Other reserves		-140,911	-92,466	-14,031
Retained earnings		6,140	-47,119[3]	-78,918
Shareholders' equity	7	**350,329**	**358,000**	**396,654**
Subordinated debt	8	150,000	150,000	80,000
Insurance liabilities	9	1,158,670	1,237,301	1,260,794
Provision for employee benefits	10	26,240	26,036	24,083
Derivatives	3	7,803	10,321	7,133
Deferred tax liabilities	11	3,844	13,991	12,437
Amounts due to banks	12	15,667	22,309	2,351
Other liabilities	13	99,192	96,896	108,845
Total equity and liabilities		**1,811,745**	**1,914,854**	**1,892,297**

1 The references next to the balance sheet items relate to the notes to the consolidated statement of financial position in Section 6.3
2 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.
3 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

5.2. Consolidated Statement of Profit or Loss

In € thousands	Notes[1]	2017	2016
> Income			
Premium income		683,227	666,098
Less: Reinsurance premiums		38,969	44,998
Net premium income	17	**644,258**	**621,100**
Fee and commission income		3,007	28
Fee and commission expense		-10	15
Net fee and commission income	18	**3,017**	**13**
Share in result of associates		897	974
Investment income	19	15,845	19,008
Result on derivatives	20	-	17,864
Total income		**664,017**	**658,959**
> Expenses			
Result on derivatives	20	9,263	-
Technical claims and benefits	21	379,293	425,660
Acquisition costs for insurance activities	22	130,171	128,880
Staff costs	23	89,376	109,779
Depreciation and amortisation of non-current assets		2,604	6,719
Other operating expenses	24	34,730	31,348
Impairment losses	25	399	12,308
Other interest expenses	26	10,730	7,145
Total expenses		**656,566**	**721,839**
Result before tax		**7,451**	**-62,880**
Tax expense	27	1,311	-15,761
Net result continued operations for the period		**6,140**	**-47,119**[2]

> Attribution:		
Net result continued operations attributable to shareholders	6,140	-47,119
Net result continued operations for the period	**6,140**	**-47,119**

[1] The references next to the income statement items relate to the notes to the consolidated statement of profit or loss in Section 6.3.
[2] The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

5.3. Consolidated Statement of Total Comprehensive Income

Consolidated Statement of Other Comprehensive Income

In € thousands	2017	2016
> Items that will not be reclassified subsequently to profit or loss		
Changes in valuation of defined benefit pension plan	-1,326	483
Total items never reclassified to profit or loss	**-1,326**	**483**
> Items that may be reclassified subsequently to profit or loss		
Unrealised revaluations	-11,949	8,311
Impairments and reversals	-101	-
Realised gains and losses fair value reserve through profit or loss	-435	-329
Total items that may be reclassified to profit or loss subsequently	**-12,485**	**7,982**
Other comprehensive income (after tax)	**-13,811**	**8,465**

Statement of Total Comprehensive Income

In € thousands	2017	2016
Net result for the period	6,140	-47,119[1]
Other comprehensive income (after tax)	-13,811	8,465
Total comprehensive income	**-7,671**	**-38,654**
> Attribution:		
Total comprehensive income attributable to the shareholder	-7,671	-38,654

[1] The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

5.4. Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Shareholders' Equity 2017

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2017	**10,898**	**398,823**	**87,864**	**-92,466**	**-47,119**	**358,000**
Transfer of net result 2016	-	-	-	-47,119	47,119[2]	**-**
Transfers 2017	**-**	**-**	**-**	**-47,119**	**47,119**	**-**
Other comprehensive income	-	-	-12,485	-1,326		**-13,811**
Net result 2017	-	-	-	-	6,140	**6,140**
Total comprehensive income 2017	**-**	**-**	**-12,485**	**-1,326**	**6,140**	**-7,671**
Total changes in equity 2017	**-**	**-**	**-12,485**	**-1,326**	**6,140**	**-7,671**
Balance as at 31 December 2017	**10,898**	**398,823**	**75,379**	**-140,911**	**6,140**	**350,329**

1 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.
2 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2016, no dividends for 2017.

Statement of Fair value Reserve 2017

In € thousands	Fair value reserve
Balance as at 1 January 2017	**87,864**
Unrealised revaluations	-11,949
Impairments and reversals	-101
Realised gains and losses fair value reserve through profit or loss	-435
Amounts charged directly to total equity	**-12,485**
Total changes in equity 2017	**-12,485**
Balance as at 31 December 2017	**75,379**

Consolidated Statement of Changes in Shareholders' Equity 2016

In € thousands	Issued share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-5,846**	**-78,918**	**404,839**
Change in accounting policies / adjustment py	-	-	-	-8,185	-	**-8,185**
Adjusted balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-14,031**	**-78,918**	**396,654**
Transfer of net result 2015	-	-	-	-78,918	78,918	**-**
Transfers 2016	**-**	**-**	**-**	**-78,918**	**78,918**	**-**
Other comprehensive income	-	-	7,982	483	-	**8,465**
Net result 2016	-	-	-	-	-47,119[1]	**-47,119**
Total comprehensive income 2016	**-**	**-**	**7,982**	**483**	**-47,119**	**-38,654**
Total changes in equity 2016	**-**	**-**	**7,982**	**483**	**-47,119**	**-38,654**
Balance as at 31 December 2016	**10,898**	**398,823**	**87,864**	**-92,466**	**-47,119**	**358,000**[2]

1 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

2 This amount has been adjusted for the impact (€ 1,350 thousand) of the new accounting policy as per 1 January 2016. Refer to 6.1 Accounting Policies.

Statement of Fair value Reserve 2016

In € thousands	Fair value reserve
Balance as at 1 January 2016	**79,882**
Unrealised revaluations	8,311
Impairments and reversals	-
Realised gains and losses fair value reserve through profit or loss	-329
Amounts charged directly to total equity	**7,982**
Total changes in equity 2016	**7,982**
Balance as at 31 December 2016	**87,864**

5.5. Consolidated Cash Flow Statement

In € thousands	2017	2016
> Cash flow from operating activities		
Operating profit before tax	7,451	-62,880[1]
> Adjustments for:		
Depreciation and amortisation of non-current assets	2,604	6,719
Amortisation of investments	16,213	13,751
Changes in insurance liabilities	-53,213	-443,496
Changes in other provisions	204	1,953
Impairment charges / (reversals)	399	12,308
Unrealised results on investments through profit or loss	-4,304	-
Retained share in the result of associates	-	-385
Taxes (paid) received	-	5,499
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	-6,642	19,958
Change in other operating activities	-5,477	394,636
Net cash flow from operating activities	**-42,765**	**-51,937**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	874,089	1,094,729
Purchase of investments and derivatives	-838,410	-1,120,266
Net cash flow from investment activities	**35,679**	**-25,537**
> Cash flow from finance activities		
Issue of subordinated loans	-	70,000
Net cash flow from financing activities	**-**	**70,000**
Net increase/(decrease) in cash and cash equivalents	**-7,086**	**-7,474**
Cash and cash equivalents 1 January	53,043	60,517
Cash and cash equivalents as at 31 December	**45,957**	**53,043**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	7,107	35,076
Dividends received	1	164
Interest paid	10,608	692

[1] The 2016 operating profit before tax, as reported in this annual report 2017, amounting to € -62,880 thousand, has been adjusted compared to the result before tax reported in the annual report 2016 (€ -75,593 thousand). For further explanation see paragraph 6.1.2.

6. Notes to the Consolidated Financial Statements

6.1. Accounting Policies for the Consolidated Financial Statements

6.1.1. General Information

As of March 5 2018 Reaal Schadeverzekeringen N.V. has changed its name into VIVAT Schadeverzekeringen NV. In the consolidated financial statements within this annual report the name 'VIVAT Schade' is used.

VIVAT Schade, incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. VIVAT Schade is a wholly owned subsidiary of VIVAT NV and VIVAT NV is a wholly owned subsidiary of Anbang Group Holdings Co. Limited with a registered office at Hong Kong, People's Republic of China, which ultimate parent is Anbang Insurance Group Co., Ltd. with its headquarters in Beijing, People's Republic of China.

VIVAT Schadeverzekeringen NV has its registered office located in Amstelveen, the Netherlands and has its principal place of business located at Burgemeester Rijnderslaan 7, 1185 MD in Amstelveen, the Netherlands. The registration number at the Dutch Chamber of Commerce Trade is no. 37010992. VIVAT Schadeverzekeringen NV is a provider of property & casualty and disability insurance products.

The consolidated financial statement combines the financial statements of VIVAT Schadeverzekeringen N.V. (the parent company) and its subsidiaries (see Section 6.3, note 30 List of principal subsidiaries).

The key accounting policies and the changes herein used in the preparation of VIVAT Schade's consolidated financial statements are set out in this section.

Adoption of the Financial Statements

The consolidated financial statements of VIVAT Schade for the year ended on 31 December 2017 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 29 May 2018. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

6.1.2. Basis of Preparation

Statement of IFRS Compliance

VIVAT Schade prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Relevant New standards, Amended Standards and Interpretations of Existing Standards Effective as of 2017

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. The amendments to IAS 7 'Statement of cash flows': Disclosure Initiative were issued by IASB in January 2016 and became effective from 1 January 2017. The purpose of the amendments was to address investors' need to better understand the entities' debt by providing extra information about financing cash flows. As a result the amendments require additional disclosures for liabilities for which cash flows are classified as financing activities in the statement of cash flows.

VIVAT Schade addressed these new requirements by presenting additional disclosures for subordinated loans.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2018

Relevant new standards, amendments to existing standards and interpretations, published prior to 1 January 2017 and effective for reporting periods beginning on or after 1 January 2018, were not early adopted by VIVAT Schade. New or amended standards that become effective on or after 1 January 2018 and that are relevant to VIVAT Schade are disclosed below.

Amended IFRS 4 on Insurance Contracts

This standard is effective as of 1 January 2018 and permits an insurer to apply the temporary exemption from applying IFRS 9 for entities whose business model is predominantly to issue insurance contracts. An entity that applies this exemption is allowed to postpone the implementation of IFRS 9 until 1 January 2021, the effective date of IFRS 17 the new standard on insurance contracts.

Predominance is assessed based on a ratio calculated as the quotient of insurance related liabilities (i.e. insurance contracts, investment contracts issued in combination with insurance contracts, tax liabilities relating to insurance activities, funding and other related liabilities) and total liabilities. If the predominance ratio is 90% or more, the entity qualifies for the ‘temporary exemption’ which offers the qualifying entity for the possibility to postpone the implementation of IFRS 9. VIVAT Schade’s predominance ratio is well above 90%.

VIVAT Schade meets these criteria and has decided to postpone the implementation of IFRS 9 until 1 January 2021.

IFRS 9 Financial Instruments

IFRS 9, the new standard on financial instruments has an effective date of 1 January 2018. IFRS 9 replaces most of the current IAS 39 ‘Financial Instruments: Recognition and Measurement’ and includes new requirements for the recognition and measurement of financial assets and liabilities, a new forward looking model for the recognition of impairment losses and a new regulation in order to better align hedge accounting with economic reality and risk management. However, since VIVAT Schade has decided to apply the temporary exemption from applying IFRS 9, the implementation of IFRS 9 is postponed by VIVAT Schade until 1 January 2021, the effective date of IFRS 17.

Since financial instruments constitute a significant item in VIVAT Schade's consolidated financial statements, it is expected the introduction of IFRS 9 will have a significant impact on VIVAT Schade's financial statements.

IFRS 15 Revenue from Contracts with Customers

This standard becomes effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue on contracts other than insurance contracts and financial instruments. The implementation of IFRS 15 will not have a significant impact on the consolidated financial statements of VIVAT Schade.

IFRS 16 Leases

This standard has an effective date of 1 January 2019. According to this new standard, lessees (the users of the assets) no longer make a distinction between finance and operational lease. Lessees have to recognise all assets in scope of IFRS 16 'Leases' in their statement of financial position. The main change involves the accounting of operational leases; a lessee has to recognise a right-of-use asset representing the right to use the underlying asset and a lease liability representing the obligation to make lease payments. In statement of profit or loss

a lessee recognises a depreciation charge regarding their assets in use and interest rate expense on their lease liabilities for all these leases.

The introduction of IFRS 16 is expected to only have minor impact on VIVAT Schade's consolidated financial statement - the total of assets and liabilities will increase as a result of right-of-use assets and lease liabilities being recognised. No significant impact on equity is expected.

IFRS 17 Insurance contracts

On 18th May 2017 the IASB has issued IFRS 17, the new comprehensive standard on insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 the current standard on insurance contracts. IFRS 4 allows insurers to continue their previous local accounting policies for the measurement of insurance contracts. IFRS 17 provides a comprehensive model (the general model) for the measurement of insurance contracts with a long duration and the premium allocation approach mainly for short duration insurance contracts.

The main features of the new accounting model for insurance contracts comprise:

- Measurement of insurance liabilities is based on the present value of probability weighted future cash flows to fulfil the contract, increased with a risk adjustment to reflect uncertainties in these cash flows.
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period. The contractual service margin is amortised over the coverage period of the contract.
- The recognition of insurance revenue and insurance service expenses in profit or loss based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income and expenses.
- The effects of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- Extensive disclosures to provide information on the recognised amounts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Retrospective application of the standard is required. Early adoption is permitted. VIVAT Schade plans to adopt IFRS 17 per 1 January 2021. The adoption of IFRS 17 will have a significant effect on VIVAT Schade's consolidated financial statements, systems and data requirements.

Changes in Policies, Estimates and Presentation and Other Adjustments

Changes in policies and other adjustments

As of 2017 designated parts of the disability insurance liabilities, which previously were measured using locked-in interest rates, are measured using current market interest rates in order to better reflect economic reality given the interest sensitivity of these liabilities. The comparative figures affected have been altered accordingly resulting in a decrease of equity per 1 January 2016 of € 17,485 thousand. The impact on profit or loss after taxation in 2016 is a gain of € 12,160 thousand. Impact on equity per 31 December 2016 is a decrease of € 5,325 thousand.

Prior to the recognition of this change in policies, the measurement of the insurance liabilities was adjusted. This resulted in an increase of equity per 1 January 2016 of € 9,300 thousand and per 31 December 2016 of € 6,675 thousand. The impact of this adjustment on profit or loss after taxation in 2016 is a loss of € 2,625 thousand.

The effects of these events are recognised retrospectively and in accordance with the International

Financial Reporting Standards a third statement of financial position (1 January 2016) is presented.

The following tables present the impact of the prior period adjustment and change in accounting policies on the relevant items of the consolidated statement of financial position per 1 January 2016 and 31 December 2016 and the consolidated statement of profit or loss over 2016. The figures in the tables are rounded and consequently rounding differences may occur.

Impact changes in policies and other adjustments

Consolidated statement of financial position

In € thousands	Balance as at 1 January 2016	Impact error correction as at 1 January 2016	Impact new accounting policy as at 1 January 2016	Restated balance as at 1 January 2016
Insurance liabilities	1,247,638	-12,400	25,556	1,260,794
Reinsurance share	112,666	-	2,243	114,909
Corporate income tax (asset)	23,672	-3,100	5,829	26,401
Shareholders' equity	404,839	9,300	-17,485	396,654

In € thousands	Balance as at 31 December 2016	Impact error correction as at 31 December 2016	Impact new accounting policy as at 31 December 2016	Restated balance as at 31 December 2016
Insurance liabilities	1,236,901	-8,900	9,300	1,237,301
Reinsurance share	116,853	-	2,200	119,053
Corporate income tax (asset)	18,173	-2,225	1,775	17,723
Shareholders' equity	356,650	6,675	-5,325	358,000

Consolidated statement of profit or loss

In € thousands	Statement of profit or loss 2016	Impact error correction on 2016	Impact new accounting policy on 2016	Restated statement of profit or loss 2016
Technical claims and benefits gross	468,852	3,500	-16,256	456,096
Technical claims and benefits reinsurance	-30,479	-	43	-30,436
Result before taxation	-75,593	-3,500	16,213	-62,880
Taxation	-18,939	-875	4,053	-15,761
Net result	-56,654	-2,625	12,160	-47,119

Changes in estimates

In 2017 there were no significant changes of estimates.

Changes in presentation

Adjustment in presentation of deferred tax assets and deferred tax liabilities

The deferred tax assets and deferred tax liabilities were presented separately in the statement of financial position at 31 December 2016. However, deferred tax assets and deferred tax liabilities relate to corporate income tax levied by the same Dutch Tax Authorities and therefore have to be offset under IAS 12 'Income Taxes'. This has been adjusted in 2017. The amount of deferred tax assets and deferred tax liabilities offset at the end of 2016 was € 3.175 thousand and € 17.166 thousand respectively. Impact of this change on profit or loss and equity in 2017 and in 2016 is nil.

6.1.3. General Accounting Policies

The accounting policies set out below have been applied consistently to all the periods presented in the consolidated financial statements.

Functional Currency and Reporting Currency

The consolidated financial statements have been prepared in thousands of euros (€). The euro is the functional and reporting currency of VIVAT Schade. All financial data presented in euros is rounded to the nearest thousand, unless stated otherwise. Totals are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Foreign Currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date.

Monetary items in the statement of financial position denominated in foreign currencies are translated into euros at the exchange rate applicable at the reporting date. Exchange rate differences arising from these transactions and from converting monetary items in the statement of financial position denominated in foreign currencies are recognised in the statement of profit or loss within investment income or gains and losses on financial instruments, depending on the item in the statement of financial position to which they relate.

The exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value recognised in the statement of profit or loss, are accounted for as part of these changes in the value of the related item in the statement of financial position. Exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value being recognised in other comprehensive income, are incorporated into shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

Accounting Based on Transaction Date and Settlement Date

All purchases and sales of financial instruments that have been settled in accordance with standard market practices are recognised at the transaction date, i.e. the date on which VIVAT Schade commits itself to buying or selling the asset or liability. All other purchases or sales are recognised as forward transactions until they are settled.

Offsetting Financial Instruments

Financial assets and liabilities are offset and their net amounts are reported in the statement of financial position if the following conditions are met:

- a legally enforceable right to set off the recognised amounts exists,
- VIVAT Schade intends to settle the items on a net basis, or to realise the asset and the liability simultaneously.

If either of these conditions are not met, amounts are not offset.

Estimates and Assumptions

The preparation of the consolidated financial statements requires VIVAT Schade to make estimates and assumptions based on complex and subjective opinions and best estimates. In this process, management judges situations on the basis of available information and financial data that are likely to change in the future. Although estimates are made to the best of the management's knowledge, actual results will differ from these estimates and the use of other assumptions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The resulting impact on accounting estimates is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting policies involving the use of estimates concern the methods for determining liabilities arising from insurance contracts, the provision for employee benefits, the provisions for bad debts, the fair value of assets and liabilities, and impairments.

Fair Value of Assets and Liabilities

Fair Value

The fair value is the price that VIVAT Schade would receive to sell an asset or to pay to transfer a liability in an orderly transaction between market participants in the principal market, or in the most advantageous market and assuming the highest and best use for non-financial assets.

Fair Value Hierarchy

The fair value of financial assets and liabilities is determined using quoted prices where available. These quoted prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. VIVAT Schade applies a transfer price when determining fair value; as a result, financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement; available market information relating to the fair value of the instrument is taken into account.

When no market price is available for certain financial assets and liabilities, the fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methodologies. Input used in these models is based on observable market information to the extent possible. All valuation methods used are assessed and reviewed according to the VIVAT Schade governance procedures.

6.1.4. Basis for Consolidation

Subsidiaries

Subsidiaries, i.e. all entities (including structured entities) that are controlled by VIVAT Schade, are consolidated. Control over companies and entities is assumed to exist if all of the following conditions are met:

- VIVAT Schade has power over a company or entity by means of existing rights that give VIVAT Schade the current ability to direct the relevant activities of the company or entity;
- VIVAT Schade has exposure or rights to variable returns from its involvement with the investee; and
- VIVAT Schade has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to VIVAT Schade until the date this control ceases. The financial statements of these group companies are fully consolidated and aligned with the accounting policies applied by VIVAT Schade. Non-controlling interests and their results are presented separately in the consolidated statement of financial position and the statement of profit or loss.

Investments in Associates

Associates are entities in which VIVAT Schade can exercise significant influence on the operating and financial policies, but over which it has no control.

The consolidated financial statements include VIVAT Schade's total share of profit of associates from the date that VIVAT Schade acquires significant influence to the date that significant influence ceases to exist. The profit is accounted for using the equity method, after adjustments to comply with VIVAT Schade's accounting policies, where needed.

Upon recognition, associates are initially accounted for at their acquisition price (including transaction costs) and subsequently measured using the equity method. This measurement also includes goodwill paid upon acquisition less accumulated impairment losses, if applicable.

Under the equity method, VIVAT Schade's share of profit or loss of associates is recognised in the statement of profit or loss within share of profit of associates. Other changes in equity of associates are recognised directly in VIVAT Schade's other comprehensive income.

If the carrying amount of the associate is nil, no further losses are accounted for, unless VIVAT Schade has entered into commitments, made payments on its behalf or acts as a guarantor.

Elimination of Group Transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between VIVAT Schade and its associates are eliminated to the extent of VIVAT Schade's interest in these investments. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that no evidence of impairment exists.

6.1.5. Accounting Policies for the Statement of Financial Position

Intangible Assets

Software

Costs that are directly related to the development of identifiable software controlled by VIVAT Schade, that is expected to generate economic benefits in excess of these costs, are capitalised. The direct costs comprise external costs and staff costs directly attributable to software development. All other costs associated with the development or maintenance of software are expensed as incurred.

Capitalised software development costs are amortised on a straight-line basis over the asset's useful life, with a maximum of five years. An asset impairment test is performed at the end of each reporting period.

Other Intangible Assets

Other intangible assets include assets with finite and indefinite useful lives, such as distribution channels, trademarks and client portfolios. Assets with finite useful lives are either amortised using a straight-line method over their useful lives or on the basis of the economic benefits flowing from the underlying portfolios, i.e. usually between five and 15 years. If objective evidence points to a possible impairment loss, an impairment test is performed. Assets with indefinite useful lives are not amortised. They are tested for impairment at the end of each reporting period.

Impairment of Intangible Assets

An intangible asset is subject to impairment if its carrying amount exceeds the recoverable amount from continued use (value in use) or sale of the asset. The recoverable amount of assets is estimated if indications of an impairment of the asset exist. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Investments in Associates

For details, see Section 6.1.4 (Basis of consolidation) under ‘Investments in associates’.

Financial Assets

VIVAT Schade classifies its financial assets in one of the following categories: (1) available for sale, or (2) loans and receivables. The classification depends on the purpose for which the financial assets are acquired. Management decides to which category the asset is allocated at initial recognition.

Upon initial recognition, financial assets are measured at fair value including transaction costs, with the exception of the category ‘at fair value through profit or loss’, in which transaction costs are recognised directly in the statement of profit or loss.

The categories of financial assets are explained in more detail in the following section.

VIVAT Schade measures its financial liabilities at amortised cost with the exception of derivatives and liabilities from investments for account of third parties. For more information see the corresponding sections.

Investments

Available for Sale (Fair Value Through Other Comprehensive Income)

Financial assets that do not meet the criteria defined by management for loans and receivables or are not designated as at fair value through profit or loss are classified as available for sale.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses arising from fair value adjustments of these investments are recognised within other comprehensive income (shareholders' equity), net of deferred taxes.

When financial assets are sold, any accumulated fair value adjustments are recognised in the statement of profit or loss as investment income. VIVAT Schade uses the average cost method to determine the related gains and losses.

Loans and Receivables (Amortised Cost)

Loans and receivables comprise unlisted debt investments with a fixed term (including mortgages) and loans to banks arising from endowment mortgages issued by the insurance business. Loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment if deemed necessary.

Impairment of Financial Assets

At reporting date, VIVAT Schade assesses whether there is objective evidence of an impairment of investments classified as loans and receivables and as available for sale. Impairment losses are recognised directly in the statement of profit or loss as ‘impairment charges’.

Investments in debt securities

Investments in debt securities measured at amortised cost or available for sale are tested for impairment if there is objective evidence of financial distress at the counterparty, declining markets for the counterparty's product or other relevant indicators. This test comprises both quantitative and qualitative considerations. Debt securities are assessed for aspects including expected credit losses and credit losses already incurred (e.g. due to default), market data on credit losses and other evidence of the issuer of the instrument's inability to meet its payment commitments.

Where mortgage loans are concerned, an allowance for impairment is recognised if objective evidence exists that VIVAT Schade is not able to collect all payments in accordance with the contractual agreements. For mortgages that are individually significant, this allowance corresponds to the difference between the carrying amount and the recoverable amount. The recoverable amount equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans.

The criteria relating to impairments are applied to the entire mortgage portfolio. Individual mortgage loans with less significant amounts (and corresponding credit risk) are tested collectively for impairment.

The allowance for impairment losses also covers losses where objective evidence of losses likely to be incurred in the loan portfolio exists (IBNR: incurred but not reported). Losses on mortgages are estimated on the basis of historic loss patterns and the creditworthiness of counterparties. Both estimates take into account the current economic climate in which the counterparties operate.

When a loan is uncollectable, it is written off against the relevant allowance for impairment.

Investments in Equity Instruments

An investment in equity instruments is considered to have been subject to impairment if its carrying amount exceeds the recoverable value for an extended period, which means that its fair value:

- has decreased 25% or more below cost; or
- has been at least 5% below cost for nine months or more.

Depending on the availability of data, the fair value of unlisted equities is determined based on:

- the price of the most recent transaction (as an indication);
- current fair values of other, similar investments (in entities); or
- valuation methods in accordance with accepted economic methods that use market data to the extent possible.

Reversal of Impairments

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the impairment allowance is (partially) reversed. That reversal is recognised in profit or loss. Impairments on equity securities are never reversed.

Derivatives

General

Derivatives are recognised at fair value upon inception. The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and quoted offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. VIVAT Schade recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Changes in the fair value of derivatives, that do not qualify for cash flow hedge accounting, are accounted for in the statement of profit or loss as gains and losses on financial instruments.

Loans and Advances to Banks

These assets concern receivables from banks with a remaining maturity of one month or more, not including interest- bearing securities. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and Cash Equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Taxes

Income tax expense

Income tax relates to payable or recoverable tax on the taxable profit for the reporting period and taxes due from previous periods, if any. Current tax receivables and payables are measured using the tax rate applicable at the reporting date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This is based on the tax rates applicable at the reporting date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled.

Deferred tax assets and liabilities are measured at the undiscounted amount expected to be received or paid. Deferred tax assets are only recognised if sufficient taxable profits are expected to be available in the near future against which these temporary differences can be utilised. Deferred taxes are recognised for temporary differences between the carrying amount and the value for tax purposes.

Deferred tax assets are assessed at the reporting date; if it is no longer likely that the related taxable profit will be achieved, the asset is reduced to its recoverable value. Deferred tax assets and liabilities are presented on a net basis to the extent that they relate to the same tax authority and that they are settled simultaneously.

Tax group

VIVAT NV and its subsidiaries, including VIVAT Schade, form a tax group and are jointly and individually liable for the fiscal unity's corporate income tax and VAT debts.

Other Assets

Reinsurance contracts

Inbound reinsurance contracts

Other insurers use these contracts to transfer the insurance risk associated with their own insurance contracts to VIVAT Schade. These contracts qualify as inbound reinsurance contracts; the obligations from the insured risk and the deposit component are recognised as liabilities within insurance contracts in accordance with IFRS 4.

Outbound reinsurance contracts

By virtue of these contracts, VIVAT Schade is compensated for losses incurred on its own insurance contracts. Because of the transfer of significant insurance risks, the entire contract qualifies as an outbound (re)insurance contract. The liabilities from insurance risks and the deposit components are recognised as insurance liabilities in accordance with IFRS 4. The share of reinsurance companies in the insurance liabilities and the benefits to which VIVAT Schade is entitled by virtue of its reinsurance contracts are accounted for as reinsurance assets, after deduction of reinsurers' share in technical claims and benefits expenses. These assets comprise short- term receivables from reinsurance companies (presented under other assets) and long-term receivables (presented under reinsurance contracts). These receivables depend on the expected claims and benefits arising from the insurance contracts that VIVAT Schade has reinsured.

The amounts receivable from, and payable to, reinsurance companies are determined in accordance with the terms and conditions of each reinsurance contract. Reinsurance obligations relate primarily to premiums payable for reinsurance contracts.

Receivables from reinsurers are assessed for potential impairment due to credit risk, at the reporting date.

Other advances and accrued assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. Accrued assets also include the accrued interest on financial instruments measured at amortised cost, as well as other accruals, which include amounts receivable from the clearing counterparty with regard to derivative positions.

Assets Held for Sale

Assets held for sale are presented separately in the consolidated statement of financial position and consist of non-current assets whose carrying amount will be recovered principally through a sale transaction and not through continuing use.

Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

Any surplus of the carrying amount over their fair value less costs is recognised as an impairment loss.

Equity

Issued share capital and share premium reserve

The share capital comprises the issued and paid-in ordinary shares. The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares.

Reserves

Fair value reserve

Gains and losses arising from changes in the fair value of assets that are classified as available for sale are recognised in the fair value reserve (net of taxes). If the particular assets are sold, settled or as a result of other events are no longer recognised; the corresponding cumulative gains and losses is then transferred from the fair value reserve to profit or loss (see the section entitled 'Financial assets'). Exchange rate differences on non-monetary financial assets that are classified as available for sale are also recognised in this reserve.

Other reserves

Other reserves mainly comprise VIVAT Schade's retained earnings.

Subordinated Debt

Subordinated debt includes the subordinated bonds and private loans issued by VIVAT Schade. This debt is initially measured at fair value net of the transaction costs incurred. The debt is subsequently measured at amortised cost, using the effective interest method.

Insurance Liabilities

Insurance liabilities arise from insurance contracts. Insurance contracts are contracts that concern the transfer of significant insurance risk. These contracts can also involve investment risks. VIVAT Schade issues non-life insurance contracts. VIVAT Schade recognises insurance liabilities from the earliest of the beginning of the coverage period or the date on which the first payment of the policyholder becomes due.

For insurance liabilities IFRS requires a liability adequacy test to be performed. The carrying amount of the insurance liability based on historical cost and reduced by related intangible assets like the Value of Business Acquired (VOBA) and deferred acquisition costs (if applicable) is compared to the current estimates of future cash flows corresponding to the insurance liability. When the latter is higher, there is a deficit. Under IFRS 4, the carrying amount of the insurance liability has to be supplemented by this deficit, thus increasing the value of the insurance liability based on the current estimates of future cash flows.

Property and casualty (P&C)

VIVAT Schade has continued applying the accounting policies in use at the time of transition to IFRS to for the valuation of its P&C insurance contract liabilities since the first adoption of IFRS (the historically applied accounting policies). These insurance liabilities are measured at the higher of :

- the historic value based on the assumptions used to calculate the (guaranteed) premium and
- the minimum value according to the liability adequacy test.

P&C contracts are insurance contracts that provide coverage not related to the life or death of insured persons and provide coverage for a relative short period of time. VIVAT Schade's P&C insurance contracts can be divided into the following product groups: accident and health, motor vehicles, fire, transport, general liability and other.

Payments made after the occurrence of a specified insured event are either fixed (e.g. in the event of disability) or linked to the scale of the economic loss suffered by the policyholder (in accordance with the indemnity principle).

VIVAT schade does not discount the insurance liabilities arising from P&C insurance contracts.

Disability insurance contracts

Disability insurance liabilities are measured based on historic actuarial and cost assumptions, unless the IFRS LAT result in a higher liability. With the exception of the IBNR and the claims handling reserve, the disability insurance liabilities are measured using current market interest rates.

The details of the measurement principles for non-life insurance liabilities, comprising property and casualty insurance contracts and disability insurance contracts are described below:

Provision for unearned premiums

This provision reflects premiums related to the period of any unexpired coverage at the reporting date. The provision is equal to the unearned gross premiums and commission paid is deducted from the gross premium. The provision for unearned premiums is calculated separately for each insurance contract in proportion to the unexpired risk period.

The change in the provision for unearned premiums is recorded in the statement of profit or loss in order to recognise the income over the period of exposure to risk.

Provision for unexpired risks

The provision for unexpired risks has been formed to meet obligations resulting from:

- claims and claims handling expenses that may arise after the reporting date and which are covered by contracts issued prior to that date, insofar as the related estimated amount exceeds the provision for unearned premiums and the future premiums in relation to these contracts; and
- premiums received, both single and regular, for contracts with a fixed premium where the underlying risk increases over time. This applies to disability insurance contracts in particular.

Provision for claims payable

This provision is intended to cover claims arising from the current and preceding years that have not been settled at the reporting date. The provision is determined systematically on a claim-by-claim basis. In the case of disability claims, this provision is referred to as the provision for periodic payments.

Provision for internal claims handling costs

A separate provision for internal claims handling costs is formed as part of the provision for claims payable. This provision is an estimate of the expenses relating to payments to be made in respect of claims arising from insured events that have already occurred. The provision for internal claims handling costs is measured by reference to the carrying amount of the previous month, adjusted – if necessary – for significant developments in the current month. The provision is reassessed semi-annually, based on business information as well as actuarial analysis derived from the most recent liability adequacy test.

Provision for co-insurance

VIVAT Schade participates in co-insurance contracts, mainly relating to the transport sector. The technical provision is calculated based on all risks accepted at the reporting date and claims incurred during the financial year, both reported and unreported.

The expected balances of risks covered and losses incurred arising from transport insurance contracts are determined on an underwriting-year basis.

Provision for claims incurred but not reported (IBNR)

This provision is intended for events that occurred prior to the reporting date but have not yet been reported at that date. The IBNR is based on historically observed claim development statistics on which estimates are made for claims that have occurred, but are not yet reported at the reporting date. The IBNR provision is reassessed semi-annually, based on business information.

Liability adequacy test of non-life insurance contracts

Test methodology

This test is performed on all non-life provisions. The test value of the insurance liabilities is based on a best estimate and a risk margin. The best estimate is determined separately for each portfolio with homogeneous risk. The best estimate serves as a realistic estimate of future premium income (with regard to disability insurance contracts), claim payments, expenses and commissions. The cash flows are discounted using the swap curve. The risk margin is based on the cost of capital method, in which process the cost of capital equals the capital requirements of a reference company. Cost of capital is determined annually. For 2017 it is set at 4% (2016: 4%).

The test is performed on an aggregate level; deficits in portfolios are compensated with a surplus in another. Any remaining deficit is charged directly to the statement of profit or loss.

Test level and frequency

An IFRS liability adequacy test is carried out quarterly to establish the adequacy of the liabilities arising from the total portfolio of non-life insurance policies.

Provision for Employee Benefits

Short-term employee benefits

Short-term employee benefits include salaries, short paid leave, profit-sharing and bonus schemes. These are accounted for in the statement of profit or loss over the period in which the related services are rendered. In the event that employees have not made use of their entitlements at the end of the period, a liability is formed for the nominal amount.

Pension benefits

General

All currently employed personnel is hired by VIVAT NV. VIVAT's main pension scheme is a defined contribution scheme administrated by Stichting Pensioenfonds SNS REAAL. New staff is included in this scheme. In addition, a number of defined benefit plans were acquired from insurance companies in the past. The members of those schemes are referred to as members with deferred pension rights or retirees.

Defined contribution schemes

According to this pension scheme, defined contributions are paid to separate entities, primarily to Stichting Pensioenfonds SNS REAAL, an independent pension fund. Besides the defined contributions, VIVAT Schade has no obligation to make additional payments to the scheme to make up for deficits resulting from actuarial or investment risk.

Defined benefit schemes

A number of defined benefit schemes for (former) employees still exists. The net liability related to these schemes is represented by the difference between the present value of the future liabilities to pay the participants' pensions (gross pension entitlements) and the value of the qualifying assets of these schemes. Qualifying assets are investments relating to pension funds or insurance contracts with insurance companies other than VIVAT Schade.

A net asset due to a surplus is recognised only if VIVAT Schade has the ability to use the surplus to generate future economic benefits (asset ceiling). The excess amount above the asset ceiling will be deducted from the surplus through other comprehensive income. This can be caused by actuarial gains and losses, gains and losses on plan assets, or by employers' contributions stipulated in the financial agreement with the pension fund. This agreement is based on the pension liability calculated by the pension fund according to the specific parameters prescribed by DNB, among other aspects.

Gross pension entitlements from defined benefit schemes

These are calculated annually by an independent actuary according to the projected unit credit method and discounted using rates based on returns from investment-grade corporate bonds (AA rating) with a maturity corresponding to the time of benefit payments to the members. In principle, this method distributes the pension costs evenly over the period in which an employee renders services to VIVAT Schade.

Self-administered defined pension schemes

Entitlements from these schemes are insured at SRLEV within VIVAT. The investments under these schemes are held by SRLEV.

Recognition of costs in the statement of profit or loss

Costs of defined contribution schemes

The regular contributions in the defined contribution schemes qualify as net periodic costs in the year in which they are due and are recognised within the employee benefits expense. Employee contributions are deducted from this expense.

Income and expense associated with defined benefit schemes

The following items are recognised in the statement of profit or loss for defined benefit schemes:

- periodic pension costs relating to the members of the scheme who are still employed by VIVAT Schade;
- costs of improvement (or costs relating to deducted value of entitlements returned) of these pension schemes, insofar as they relate to past employment;
- gains and losses on settlement of pension entitlements; and
- net interest on the net defined benefit liability (or asset).

Net interest on defined benefit schemes

Net interest is calculated based on the actuarial discount rate used to determine the present value of the gross pension entitlements. This net liability (or asset) is determined at the start of the annual reporting period, taking into account possible changes resulting from contributions from VIVAT Schade or employees and benefits paid out during the year.

Interest costs consist of actuarial interest costs corresponding to the gross defined benefit liability, the fixed return on qualifying investments (calculated using the discount rate of the gross defined benefit entitlements) and interest on the excess above the asset ceiling, which is determined if a defined benefit asset exists.

Recognition in other comprehensive income

The following revaluations of the net pension liability (or asset) are recognised in other comprehensive income:

- actuarial gains and losses;
- gains on qualifying investments of defined benefit schemes actually realised during the year, net of the fixed gains and losses based on the actuarial discount rate that is included in the net interest from defined benefit schemes; and
- the effect of asset ceiling, if a defined benefit asset exists.

Revaluations are not reclassified to the statement of profit or loss in the next reporting period, but they can be reclassified to another component of equity, e.g. settlement of pension entitlements.

Other long term employee benefits

These refer to jubilee benefits and to discounts granted for bank and insurance products to (former) employees after the date of their retirement. The amount of the obligation is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, an obligation for reimbursement of medical expenses is recognised. A liability for the expected expenses of these reimbursements during the period of employment is recognised according to the methods used to determine the defined pension schemes. To qualify for these benefits, an employee's contract is required to run until his or her retirement age and it is to span a specified minimum period.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment. Termination benefits are recognised as staff costs in the statement of profit or loss.

Financial Liabilities

Derivatives
See the previous section entitled 'Derivatives'.

Amounts Due to Banks
Amounts due to banks comprise unsubordinated debts to credit institutions. Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. These liabilities are subsequently measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised in the statement of profit or loss.

Other Liabilities
Other liabilities include creditors, amounts payable to reinsurers, other taxes and accrued liabilities as well as interest accrued on financial instruments that are measured at amortised cost.

6.1.6. Accounting Policies for the Statement of Profit or Loss

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate.

Income

Income represents the fair value of the services, after elimination of intra-group transactions within VIVAT Schade. Income is recognised as described in the following sections.

Premium income
Premium income from insurance contracts, exclusive of taxes and other charges, comprises non-life premiums.

Premium income from non-life insurance contracts is recognised as income (earned premium) until the contracts' maturity in proportion to the insurance period, taking into account movements in the provision for unearned premium. In general, this concerns the insurance contracts with periods of up to twelve months. In case of long term disability contracts with fixed premiums and increasing risk during the contract period, the premium is recognised in profit or loss in line with the predefined risk.

Reinsurance premiums
This item represents premiums on ceded reinsurance contracts. They are charged to the statement of profit or loss in proportion to the contract period.

Fee and commission income
Fee and commission income includes income from asset management, commissions from the insurance operations and other related services offered by VIVAT Schade. These are recognised in the reporting period in which the services are performed. Commission related to transactions in general account financial instruments is included in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the result.

Fee and commission expense
Commission expenses and management fees are accounted for as fee and commission expense to the extent that they are related to the services received in the reporting period.

Share in result of associates
This item represents VIVAT Schade's share of profit of its associates. If the carrying amount of an associate falls to zero, no further losses are recognised, unless VIVAT Schade has entered into commitments or made payments on its behalf.

To the extent necessary, the accounting policies applied by associates have been adjusted to ensure consistency with those applied by VIVAT Schade.

Investment income
Investment income consists of interest, dividends, rental income and revaluations.

Interest

The item interest comprises interest income from investments. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price. The effective interest method is based on estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and direct costs and income, such as transaction costs charged, brokerage fees and discounts or premiums.

Commitment fees, together with related direct costs, are deferred and recognised as adjustments of the effective interest on a loan if it is likely that VIVAT Schade will conclude a particular loan agreement. If the commitment expires without VIVAT Schade having provided the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment period.

Interest income on monetary financial assets that have been subject to impairment and have been written down to the estimated recoverable amount is calculated over the amortised cost of the financial asset net of any reduction for impairment or uncollectibility.

Dividends

Dividends income is recognised in the statement of profit or loss as soon as the entity's right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividends.

Revaluations

This item serves to recognise realised and unrealised increases and decreases in the fair value of financial assets qualifying as at fair value through profit or loss. Revaluations concern the difference between the fair value at the reporting date or net proceeds from the sale during the reporting period on the one hand, and the fair value at the beginning of the reporting period or the purchase price during the reporting period on the other.

Realised gains and losses, i.e. the difference between the selling price and amortised cost, of financial assets coming under the other categories are recognised in this item as well.

Result on derivatives

Gains and losses on derivative and other financial instruments are recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are directly recognised in the statement of profit or loss within gains and losses on financial instruments.

Expenses

Expenses are recognised in the statement of profit or loss on the basis of a direct relationship between costs incurred and the corresponding economic benefits. If future economic benefits are expected to occur in different reporting periods, expenses are recognised in the statement of profit or loss based on a systematic allocation method. Expenses are directly recognised in the statement of profit or loss if they do not generate any future economic benefits.

Technical claims and benefits

This item comprises benefits and claims paid, surrender, claim handling costs and the changes in the general account insurance liabilities which include the difference between actual and expected results on the general account insurance portfolio. The changes in insurance liabilities resulting from a LAT-deficit, if applicable, are also presented within this item.

Acquisition costs for insurance activities

Acquisition costs comprise the direct and indirect costs associated with acquiring an insurance contract, including brokerage fees, the costs of medical check-ups and service charges for recording new policies in the portfolio. The change in the provision for unearned premiums, insofar as it corresponds to commissions paid, is also accounted for under acquisition costs.

Staff costs
This item concerns expenses related to staff, including salaries, social security contributions and pension costs. The salaries, social security contributions and costs of the SNS REAAL defined contribution pension scheme were charge by VIVAT to VIVAT Schade.

Depreciation and amortisation of non-current assets
This item comprises all amortisation of intangible assets. For details on the amortisation technique, see Section 6.1.5 entitled 'Accounting policies for the statement of financial position' (see the applicable items).

Other operating expenses
This includes office expenses, accommodation expenses and other operating expenses.

Impairment charges
This item includes impairments of assets whose carrying amounts exceed their recoverable amounts. Intangible assets, associates, financial assets, receivables and other assets may be subject to impairment. As soon as an impairment loss is identified, it is recognised in the statement of profit or loss. The specific policies for impairment are explained in greater detail in Section entitled 'Accounting policies for the statement of financial position' (see the applicable items).

Other interest expenses
This item primarily comprises interest expenses related to reinsurance depots as well as interest on subordinated bonds and private loans issued by VIVAT Schade. Interest expenses are recognised in the statement of profit or loss based on the effective interest method.

Other expenses
Other expenses comprise all expenses that cannot be accounted for within the items in the statement of profit or loss described above. These expenses have no direct relation with the primary and secondary business operations, occur occasionally, and are incurred in a single reporting period or arise in a single reporting period; they are amortised over multiple reporting periods, where applicable.

6.1.7. Contingent Liabilities and Commitments

Contingent liabilities are liabilities not recognised in the statement of financial position because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of VIVAT Schade. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

6.1.8. Cash Flow Statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before tax are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price. In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

6.2. Acquisitions and Disposals

There were no acquisitions or disposals in the financial year 2017. There were no acquisitions or disposals in 2016 either.

6.3. Notes to the Consolidated Financial Statements

1. Intangible Assets

Breakdown of Intangible Assets

In € thousands	2017	2016
Software	1,044	3,648
Other intangible assets	-	-
Total	**1,044**	**3,648**

Statement of Changes in Intangible Assets 2017

In € thousands	Software	Other intangible assets	Total
Accumulated acquisition costs	3,648	106,772	**110,420**
Accumulated amortisation and impairments	-2,604	-106,772	**-109,376**
Balance as at 31 December	**1,044**	**-**	**1,044**
Balance as at 1 January	3,648	-	**3,648**
Amortisation capitalised costs	-1,879	-	**-1,879**
Amortisation purchases	-725	-	**-725**
Balance as at 31 December	**1,044**	**-**	**1,044**

Of the carrying amount of the software at year-end 2017, € 776 thousand (2016: € 2,624 thousand) related to self-developed software.

The amounts of other intangible assets were nil during 2017.

Statement of Changes in Intangible Assets 2016

In € thousands	Software	Other intangible assets	Total
Accumulated acquisition costs	5,443	106,772	**112,215**
Accumulated amortisation and impairments	-1,795	-106,772	**-108,567**
Balance as at 31 December	**3,648**	**-**	**3,648**
Balance as at 1 January	5,443	15,307	**20,750**
Amortisation capitalised costs	-1,071	-	**-1,071**
Amortisation purchases	-724	-3,000	**-3,724**
Impairments	-	-12,307	**-12,307**
Balance as at 31 December	**3,648**	**-**	**3,648**

2. Investments

Investments

Breakdown of Investments

In € thousands	2017	2016
Available for sale	1,515,667	1,633,680
Loans and receivables	51,559	1,857
Balance as at 31 December	**1,567,226**	**1,635,537**

Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Listed	–	–	1,301,840	1,385,804	**1,301,840**	**1,385,804**
Unlisted	213,827	230,230	–	17,646	**213,827**	**247,876**
Total	**213,827**	**230,230**	**1,301,840**	**1,403,450**	**1,515,667**	**1,633,680**

Available for Sale: Statement of Changes

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Balance as at 1 January	230,230	151,538	1,403,450	1,458,606	**1,633,680**	**1,610,144**
Purchases and advances	249,264	163,601	534,163	956,542	**783,427**	**1,120,143**
Disposals and redemptions	-265,362	-86,561	-603,443	-1,005,433	**-868,805**	**-1,091,994**
Revaluations	-170	1,654	-15,888	8,865	**-16,058**	**10,519**
Impairments	-135	-2	–	–	**-135**	**-2**
Amortisation	–	–	-16,223	-13,756	**-16,223**	**-13,756**
Other	–	–	-219	-1,374	**-219**	**-1,374**
Balance as at 31 December	**213,827**	**230,230**	**1,301,840**	**1,403,450**	**1,515,667**	**1,633,680**

In 2017 the next steps have been made into re-risking the portfolio by divesting fixed-income investments primarily German and Dutch government bonds. Investments mainly increased in bonds from European and other international institutions and government bonds of France.

Available for Sale: Measurement

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
(Amortised) cost	189,012	205,274	1,221,890	1,306,785	**1,410,902**	**1,512,059**
Revaluation	24,815	24,956	61,642	78,138	**86,457**	**103,094**
Accrued interest	–	–	18,308	18,527	**18,308**	**18,527**
Total	**213,827**	**230,230**	**1,301,840**	**1,403,450**	**1,515,667**	**1,633,680**

The carrying amount of lent investments at 31 December 2017 was nil (2016: € 124,481 thousand), the decrease was primarily caused by the termination of the securities lending programme.

Loans and Receivables: Investments

In € thousands	2017	2016
Private loans	51,559	1,857
Total	**51,559**	**1,857**

The increase of private loans in 2017 was primarily caused by obtaining new loans as part of the re-risking strategy.

Loans and Receivables: Statement of Changes

	Loans and receivables	
In € thousands	**2017**	2016
Balance as at 1 January	1,857	4,474
Purchases and advances	50,000	123
Disposals and redemptions	–301	–2,735
Amortisation	11	5
Other	–8	–10
Balance as at 31 December	**51,559**	**1,857**

Investment Portfolio

Fixed-income Investment Portfolio
Investments of Insurance Business

In € thousands	2017	2016
Investments		
– Available for sale	1,301,840	1,403,450
– Loans and receivables	51,559	1,857
Interest-bearing investment portfolio	**1,353,399**	**1,405,307**

The following table shows the breakdown of the interest-bearing investment portfolio by sector.

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2017		2016	
Sovereign	947,806	70%	1,091,908	78%
Corporate bonds – financial sector	256,726	19%	188,963	13%
Corporate bonds – non-financial sector	86,094	6%	103,482	7%
Mortgage backed securities	11,215	1%	19,097	1%
Loans	50,668	4%	–	0%
Other	890	0%	1,857	0%
Total	**1,353,399**	**100%**	**1,405,307**	**100%**

The following overview provides a breakdown of the interest-bearing investments by rating category.

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2017		2016	
AAA	827,221	61%	894,829	64%
AA	265,054	20%	202,078	14%
A	105,623	8%	125,317	9%
BBB	151,852	11%	179,154	13%
< BBB	2,145	0%	2,133	0%
Not rated	1,504	0%	1,796	0%
Total	**1,353,399**	**100%**	**1,405,307**	**100%**

Of the interest-bearing investment portfolio, 89% of investments had an A rating or higher (year-end 2016: 87%).

The re-risking strategy includes the sale of bonds with AAA-rating (German Government / Dutch Government) and buying bonds with AA-rating (French Government).

The table below contains the breakdown of the interest bearing investment portfolio by geographic area. The interest-bearing investment portfolios of VIVAT Schade have predominantly European debtors. The German Government and Dutch Government represent, as single debtors, an interest of more than 5% each in the interest-bearing investment portfolio.

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2017		2016	
Netherlands	454,226	34%	557,468	40%
Germany	293,280	22%	352,340	25%
France	107,051	8%	87,596	6%
Austria	79,741	6%	83,090	6%
Ireland	7,514	1%	7,870	1%
Belgium	29,914	2%	32,190	2%
Spain	60,768	4%	73,070	5%
United States of America	31,913	2%	41,258	3%
United Kingdom	26,417	2%	36,975	3%
Italy	37,345	3%	39,068	3%
Other	225,230	17%	94,382	7%
Total	**1,353,399**	100%	**1,405,307**	**100%**

The category "others" also consists of European and other international institutions that cannot be allocated to a single country (2017: € 143,423 thousand / 2016: € 43,285 thousand).

3. Derivatives

Breakdown of Derivatives

	Positive value		Negative value		Balance	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	18,511	30,292	7,803	10,321	**10,708**	**19,971**
Total	**18,511**	**30,292**	**7,803**	**10,321**	**10,708**	**19,971**

Statement of Changes in Derivatives

In € thousands	2017	2016
Balance as at 1 January	19,971	2,121
Purchases	4,983	-
Realised gains and losses	-13,567	-
Disposals	-4,983	-
Revaluations	4,304	17,850
Balance as at 31 December	**10,708**	**19,971**

For more information about derivatives see Note 20 Results on derivatives and Note 29 Hedging.

4. Assets Held for Sale

This item comprises the investment of VIVAT Schadeverzekeringen NV in CED Holding BV. VIVAT NV approved the sale plan of CED Holding BV and the sale process has also been agreed with the management and the supervisory board of CED Holding BV. As a consequence this asset has been reclassified from "Investments in associates" to "Assets held for sale".

The fair value of CED Holding BV (selling price) less costs to sell exceeds the carrying amount of the investment per 31 December 2017, an impairment is not needed. In February 2018 the sale of the associate CED Holding BV has been completed.

We refer to Note 16 Events after the Reporting Date for further information.

5. Other Assets

Breakdown of other assets

In € thousands	2017	2016
Receivables from policyholders	129	674
Receivables from intermediaries	17,227	1,974
Receivables from reinsurers	15,382	7,594
Receivables from direct insurance	**32,738**	**10,242**
Receivables from group companies	17,488	16,373
Accrued interest	-107	3
Other accrued assets	20,702	22,054
Total	**70,821**	**48,672**

The receivables are expected to be recovered within twelve months after reporting date.

6. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2017	2016
Short-term bank balances	45,957	53,043
Total	**45,957**	**53,043**

The group companies of VIVAT Schade have a joint credit facility of € 2 million in total with ABN AMRO.

7. Equity

Breakdown of Equity

In € thousands	2017	2016
Equity attributable to the shareholder	350,329	358,000
Total	**350,329**	**358,000**

The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.

The change in Equity attributable to shareholders in 2017 was caused by net result 2017 (€ 6,140 thousand) and change in Other Comprehensive Income (€ -13,811 thousand). For further details on group equity, see Section 5.4, Consolidated statement of changes in equity.

The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

8. Subordinated Debt

Breakdown of subordinated debt

In € thousands	2017	2016
Private loans	150,000	150,000
Total	**150,000**	**150,000**

Subordinated private loans

In € thousands	Interest	Maturity	2017	2016
VIVAT NV	7.750%	December 2015 - December 2025	80,000	80,000
VIVAT NV	5.545%	December 2016 - December 2026	70,000	70,000
Total			**150,000**	**150,000**

On 31 December 2017 the subordinated private loans comprised two loans of € 80 million (2016: € 80 million) and € 70 million (2016: € 70 million).

On 29 December 2015, VIVAT granted a loan to VIVAT Schade in the amount of € 80 million. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest fixed rate of 7.75% annually;

On 29 December 2016, VIVAT granted a loan to VIVAT Schade in the amount of € 70 million. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest rate of 6-months EURIBOR plus 5.545% annually.

9. Insurance Liabilities and Reinsurance Share

In 2017, the total amount of gross reserves is € 1,158,670 thousand (2016: € 1,237,301 thousand). Net of the reinsurance share of € 89,965 thousand (2016: € 119,053 thousand), the net amount at year-end 2017 is € 1,068,705 thousand (2016: € 1,118,248 thousand).

Breakdown of Insurance Liabilities and its Reinsurers Share per Type of Reserve

	Gross		Reinsurance	
In € thousands	**2017**	2016	**2017**	2016
Premium shortfalls and current risks	23,438	46,380	-	-
Unearned premiums	64,315	65,063	902	1,011
Claims payable	816,462	880,178[1]	64,491	87,318
Claims incurred but not reported	254,455	245,680	24,572	30,724
Total	**1,158,670**	**1,237,301**	**89,965**	**119,053**

1 The claims payable as per 31 December 2016 has been adjusted compared to the amount reported in the annual report 2016. For further explanation see paragraph 6.1.2.

The breakdown per line of business is included below.

Breakdown Net Reserve

	2017			2016		
In € thousands	Net reserve	% Net reserve	% Gross earned premium	Net reserve	% Net reserve	% Gross earned premium
Fire	128,983	12%	32%	119,693	11%	30%
Accident and health	383,200	36%	16%	398,013	36%	17%
Motor	376,498	35%	30%	407,481	36%	31%
Transport	38,114	4%	5%	40,951	4%	5%
Other	141,909	13%	17%	152,110	13%	17%
Total	**1,068,705**	**100%**	**100%**	**1,118,248**	**100%**	**100%**

Statement of Changes in Provision for Claims Payable

	Gross		Reinsurance	
In € thousands	**2017**	2016	**2017**	2016
Balance as at 1 January	880,178	860,875	87,318	80,682
Reclassification	1	1	-	-
Reported claims, current period	352,847	408,016	15,818	24,858
Reported claims, prior periods	20,109	55,572	-6,167	6,394
Claims paid, current period	-186,640	-216,560	-10,977	-11,929
Claims paid, prior periods	-247,994	-253,046	-19,500	-14,181
Interest added	8,761	9,120	-	1,494
Other movements	-10,800	16,200	-2,001	-
Balance as at 31 December	**816,462**	**880,178**	**64,491**	**87,318**

Statement of Changes in Provision for Claims Incurred but not Reported

	Gross		Reinsurance	
In € thousands	**2017**	2016	**2017**	2016
Balance as at 1 January	245,680	265,693	30,724	32,948
Additions during the year	91,043	54,450	2,152	1,612
Added to the results	-82,268	-74,463	-8,304	-3,836
Balance as at 31 December	**254,455**	**245,680**	**24,572**	**30,724**

Development of Ultimate Loss Total

In € thousands	Accident Year							
Calendar year	**≤ 2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
2011	1,705,548	-	-	-	-	-	-	
2012	1,667,722	543,815	-	-	-	-	-	
2013	1,680,225	537,838	538,767	-	-	-	-	
2014	1,689,578	543,282	561,387	575,122	-	-	-	
2015	1,710,021	546,826	560,167	529,713	453,158	-	-	
2016	1,709,818	548,381	557,278	529,677	464,743	459,005	-	
2017	1,690,344	541,790	549,905	526,570	449,909	447,671	440,719	
Total development	**15,204**	**2,024**	**-11,138**	**48,552**	**3,249**	**11,334**	**-**	**69,225**
Run-off gain (loss) 2017	**19,474**	**6,591**	**7,373**	**3,107**	**14,834**	**11,334**	**-**	**62,714**

The development of the ultimate loss concerns gross figures, before reinsurance. It includes the claims payment, the changes in claims reserves and the changes in the provision IBNR.

LAT test result
Reconciliation of the IFRS insurance liabilities and the LAT Results

In € thousands	**2017**	**2016**
Insurance liabilities before LAT	1,068,705	1,118,248
IFRS LAT reserve	917,367	996,637

There is no deficit in 2017 and 2016.

10. Provision for Employee Benefits

Breakdown of Provision for Employee Benefits

In € thousands	2017	2016
Pension commitments	26,240	26,036
Total	**26,240**	26,036

Pension Commitments

Defined Contribution Scheme

The pension scheme to which VIVAT Schade employees are entitled is a defined contribution scheme. Under this scheme, VIVAT NV pays a fixed amount to Stichting Pensioenfonds SNS REAAL.

Defined Benefit Schemes

VIVAT Schade is also responsible for several legacy pension schemes with pension entitlements of current and former employees of VIVAT Schade and the companies it acquired over the years. Most of these legacy pension schemes have been insured by SRLEV and few with other insurance companies.

Investments relating to pension schemes that are included in a separate investment account are offset against the present value of defined benefit obligations. Non-separated investments are recognised within investments in the statement of financial position.

VIVAT Schade's total contribution to these defined benefit schemes is expected to be approximately € 0.5 million in 2018 (2017: € 0.4 million). Obligations for additional indexation rights are included in the provision and will be released after payment to the insurer.

The main aspects of the defined benefit schemes are explained below.

Pension Scheme Former AXA and Winterthur (Defined Benefit Scheme)

The accrual of new pension rights of former employees of Winterthur, UAP, Equity & Law (E&L) and Guardian have been transferred to the Stichting Pensioenfonds SNS REAAL as from 1 January 2009. The schemes of Winterthur, UAP and Equity & Law (E&L) are insured with SRLEV NV, without the investments being separated; instead they are recognised within investments in the statement of financial position but included in the balance sheet item Investments. The Guardian pension scheme is insured externally.

The indexation of the pension entitlements of inactive participants is equal to the indexation applied by the Stichting Pensioenfonds SNS REAAL. The pension entitlements of active participants are unconditionally indexed based on the salary index. Active participants are here defined as employees of VIVAT Schade that actively accrue pension benefits in the Stichting Pensioenfonds SNS REAAL.

In the event that the coverage ratio of the Winterthur scheme falls below the agreed limit of 105%, an additional contribution will be made by the employer.

After offsetting the fair value of the investments, € 8.8 million has been included in the provision for pensions for these pension schemes (2016: € 8.8 million). In 2018, VIVAT Schade's contribution to these defined benefit schemes is expected to amount to € 0.2 million (2017: € 0.1 million).

Pension Scheme Zwitserleven (Defined Benefit Scheme)

As of 1 January 2010, the accrual of new pension entitlements of the employees of former Zwitserleven NV was transferred to Stichting Pensioenfonds SNS REAAL. The rights of inactive participants built up in the past and active former participants remain part of the former pension scheme of Zwitserleven.

Until 2025 the conditional indexation of the pension rights of inactive participants is determined using the return on investment and potential technical results. If the return is insufficient, the indexation may be lower than the indexation of Stichting Pensioenfonds SNS REAAL. From 2025 onwards, the indexation will in principle be equal to the indexation of Stichting Pensioenfonds SNS REAAL. The pension rights of active former participants are unconditionally indexed based on the salary index.

The pension scheme of Zwitserleven is self-administered. For this pension scheme, the present value of the pension obligations of € 13.6 million (2016: € 13.1 million) has been included in the provision for employee benefits. There is no separate investment account. VIVAT Schade's contribution to the defined benefit scheme of Zwitserleven is expected to amount to € 0.2 million in 2018 (2017: € 0.2 million).

Other Pension Schemes

The accrual of new pension rights of former employees of Zürich, NHL, Helvetia and DBV has been transferred to Stichting Pensioenfonds SNS REAAL. The pension rights of former employees built up in the past are insured internally by SRLEV. In all of these pension schemes no more pension rights, other than indexation, are accrued.

After offsetting the fair value of the investments, € 3.8 million (2016: € 4.0 million) has been included in the provision for pensions for these pension schemes. In 2018, VIVAT Schade's contribution to the other defined benefit schemes is expected to amount to € 0.1 million (2017: € 0.1 million).

Overview Pension Commitments
Breakdown of Pension Commitments

In € thousands	2017	2016
Present value of defined benefit obligations	29,507	29,031
Less: Fair value of plan assets	-3,348	-2,995
Effect of asset ceiling	80	-
Present value of the net liabilities	**26,240**	**26,036**

Change in Present Value of Defined Benefit Obligations

In € thousands	2017	2016
Present value as at 1 January	29,031	26,859
Transfer from SRH NV	-	1,382
Increase and interest accrual through profit or loss	486	294
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	941	2,194
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	39	187
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	-205	-1,106
Benefits paid	-785	-779
Present value as at 31 December	**29,507**	**29,031**

Change in Fair Value of the Plan Assets

In € thousands	2017	2016
Fair value as at 1 January	2,995	2,776
Transfer from SNS REAAL NV	–	115
Investment income through profit and loss	50	62
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	-23	288
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	-1	-17
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	448	-93
Investment income	**474**	**239**
Premiums	663	644
Benefits paid	-785	-779
Fair value as at 31 December	**3,348**	**2,995**

The expected return on investments through profit or loss has been netted with the actuarial rate of interest (in accordance with IAS 19 Revised). The difference between the actual interest result and the actuarial rate of interest is recognised in Other Comprehensive Income.

Breakdown of Investments

In € thousands	2017	2016
Cash and cash equivalents	–	546
Equity instruments	–	504
Debt instruments	–	1,945
Insurance contract	3,348	–
Balance as at 31 December	**3,348**	**2,995**

In 2017 the investments fully include the non-contributory value, based on the actuarial principles.

Statement of Other Comprehensive Income

In € thousands	2017	2016
Balance as at 1 January	1,570	184
Actuarial gains or losses at the expense of Other Comprehensive Income pension commitments	-782	-1,275
Investment income for the benefit or at the expense of Other Comprehensive Income	460	177
Additional transfer from technical provision	230	2,991
Deferred taxes	184	–
Other	-2,310	-506
Balance as at 31 December	**-648**	**1,570**

The table below shows the actuarial gains and losses on pension commitments, that arise from experience adjustments, as a percentage of the pension commitments at year-end.

Experience Adjustment Arising on the Pension Commitments

In percentages	2017	2016
Experience adjustments as a % of defined benefit obligation	-1%	-4%
Experience adjustments as a % of investments	14%	-3%

The Main Actuarial Parameters at Year-end

In percentages	2017	2016
Discount rate	1.8%	1.7%
Expected salary increase	2.3%	1.8%
Price inflation	2.2%	1.8%

Sensitivity Present Value of Pension Obligations 2017

	31 December 2017	
	Change in € millions	Change in %
Discount rate 1.25% (-0.5%)	3	10%
Discount rate 2.25% (+0.5%)	-3	-9%

Sensitivity Present Value of Pension Obligations 2016

	31 December 2016	
	Change in € millions	Change in %
Discount rate 0.7% (-1.0%)	6	22%
Discount rate 2.7% (+1.0%)	-5	-17%

11. Deferred Tax

Origin of Deferred Tax 2017

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	-12,528	1,689	4,151	-6,688
Derivatives	-4,638	2,316	-	-2,322
Insurance contracts	2,852	52	-	2,904
Provision for employee benefits	323	1,497	442	2,262
Total	**-13,991**	**5,554**	**4,593**	**-3,844**

Origin of Deferred Tax 2016

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	-11,693	1,291	-2,126	-12,528
Derivatives	-171	-4,467	-	-4,638
Insurance contracts	2,769	83	-	2,852
Provision for employee benefits	484	-	-161	323
Other	-3,826	3,826	-	-
Total	**-12,437**	**733**	**-2,287**	**-13,991**

The corporate income taxes are irrevocable for the years up to and including 2015.

12. Amounts due to Banks

Breakdown of Amounts Due to Banks

In € thousands	2017	2016
Due on demand	15,667	22,309
Totaal	**15,667**	**22,309**

The amount of € 15.7 million (2016: € 22.3 million) due on demand relates to cash collateral.

13. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2017	2016
Debts in relation to direct insurance	8,300	719
Debts to reinsurers	25,812	28,235
Debts to group companies	4,732	4,963
Other liabilities	60,256	62,887
Accrued liabilities	92	92
Total	**99,192**	**96,896**

The other liabilities are expected to be settled within twelve months after reporting date.

14. Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2018, VIVAT Schade will take a 3.99% share in the Non-life cluster (2017: 4.72%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2018, the guarantee will be € 2.7 million (one third of total guarantee of € 8 million) and total premiums will amount to € 0.2 million (2017: € 0.3 million).

15. Related Parties

Identity of Related Parties

Parties are considered to be related if one party can exercise control or significantly affect the other party's financial or operating policies. VIVAT Schade's related parties are its ultimate parent Anbang, its parent VIVAT, affiliates and VIVAT Schade's key management personnel and their close family members. Unless stated otherwise, transactions with related parties are conducted at arm's length.

Intra-group Balances and Transactions between VIVAT Schade, VIVAT, Anbang and Affiliates

	Anbang		VIVAT		Affiliates		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
> Positions								
Other assets (receivables from group companies)	-	-	11,391	18,173	-	-	**11,391**	**18,173**
Subordinated private loans	-	-	150,000	150,000	-	-	**150,000**	**150,000**
Other liabilities (liabilities to group companies)	-	-	-	-	12,759	17,219	**12,759**	**17,219**
> Transactions								
Obtain loans (Subordinated debt and Other liabilities)	-	-	-	70,000	-	-	**-**	**70,000**
Interest income	-	-	1	5	-	-	**1**	**5**
Interest expense	-	-	9,961	6,241	4	45	**9,965**	**6,286**
Service fees expenses	-	-	-	-	1,100	1,112	**1,100**	**1,112**
Staff costs	-	-	46,677	85,716	-	-	**46,677**	**85,716**
Other operating expenses	-	-	29,166	29,428	-	-	**29,166**	**29,428**

Significant Intra-group Balances between VIVAT Schade, VIVAT, Anbang and Affiliates

The following intra-group balances still exist at the end of year 2017:

- On 29 December 2015, VIVAT NV granted a loan to VIVAT Schadeverzekeringen NV in the amount of € 80 million. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest fixed rate of 7.75% annually;
- On 29 December 2016, VIVAT NV granted a loan to VIVAT Schadeverzekeringen NV in the amount of € 70 million. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest rate of 6-months EURIBOR plus 5.545% annually.

Intra-group Balances and Transactions with Key Management Personnel of VIVAT Schade

The key management personnel consists exclusively of the members of the Executive Board and the Supervisory Board. This applies to VIVAT Schadeverzekeringen NV and also to VIVAT NV, SRLEV NV and Proteq Levensverzekeringen NV.

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of VIVAT Schadeverzekeringen NV. The remuneration information is presented on VIVAT level.

The Executive Board comprised seven members as at 31 December 2017 (31 December 2016: 7). The Supervisory Board comprised five members as at 31 December 2017 (31 December 2016: 5).

Actual Remuneration (former) Members of the Executive Board

The following table provides a breakdown of the total remuneration of the Executive Board for the year 2016 and 2017, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	2017	2016
Short-term employee benefits	4,691	4,419
Post-employment benefits	150	125
Termination benefits	-	695
Total	**4,841**	**5,239**

Reference is made to Section 6.1.5 for the accounting principles of employee benefits.

Loans, Advances and Guarantees

There are no loans, advances and guarantees outstanding on 31 December 2017 (and 2016) and/or granted to members of the Executive Board during 2017.

Actual Remuneration (former) Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members in 2016 and 2017 (excluding 21% VAT).

Breakdown of Remuneration (former) Members of the Supervisory Board

In € thousands	2017	2016
Total fixed actual remuneration of Supervisory Board members	610	543
Total remuneration for delegated Supervisory Board members	-	188
Total remuneration for the members of the Supervisory Board's Committees	25	25
Total	**635**	**756**

Loans, Advances and Guarantees

There are no loans, advances and guarantees outstanding on 31 December 2017 (and 2016) and/or granted to members of the Supervisory Board during 2017.

16. Events after the Reporting Date

Change name Reaal Schadeverzekeringen NV

As from March 5, 2018 Reaal Schadeverzekeringen NV has changed its name to VIVAT Schadeverzekeringen NV.

Storm claims

In January 2018 the storm claims for VIVAT Schadeverzekeringen NV were around € 20 million before tax, after re-insurance.

Sale of CED Holding BV

In February 2018 the sale of the associate CED Holding BV has been completed; In VIVAT Schadeverzekeringen statement of financial position year-end 2017, the associate was presented as an asset held for sale.

17. Net Premium Income

Premium income consists of insurance premiums net of reinsurance premiums.

Breakdown of net premium income

	Gross		Reinsurance		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	**2016**
Fire	214,970	197,904	-10,473	-14,402	**204,497**	**183,502**
Accident and health	110,630	115,496	-5,304	-5,642	**105,326**	**109,854**
Motor vehicle	205,702	202,841	-1,804	-1,918	**203,898**	**200,923**
Transport	35,948	35,931	-1,199	-1,921	**34,749**	**34,010**
Other segments	115,977	113,926	-20,189	-21,115	**95,788**	**92,811**
Total	**683,227**	**666,098**	**-38,969**	**-44,998**	**644,258**	**621,100**

18. Net Fee and Commission Income

Breakdown of net fee and commission income

In € thousands	2017	2016
Fee and commission income:		
- Insurance agency activities	3,007	28
Total fee and commission income:	**3,007**	**28**
Fee and commission expense	-10	15
Total	**3,017**	**13**

Compared to 2016 the net fee and commission income increased as a consequence of the activities of Volmachtkantoor Nederland BV.

19. Investment Income

Breakdown of investment income

In € thousands	2017	2016
Fair value through profit or loss	2,361	-
Available for sale	13,454	18,725
Loans and receivables	30	283
Total	**15,845**	**19,008**

Breakdown of investment income 2017

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Interest	2,365	13,759	30	**16,154**
Dividend	–	-884	–	**-884**
Total interest and dividends	**2,365**	**12,875**	**30**	**15,270**
Realised revaluations	-8	579	–	**571**
Unrealised revaluations	4	–	–	**4**
Total revaluations	**-4**	**579**	**-**	**575**
Total	**2,361**	**13,454**	**30**	**15,845**

Interest income from Fair value through profit or loss consists of € 2,365 thousand interest income from derivatives. Investment income includes a net gain on currency differences of € 4 thousand in 2017 (2016: € 21 thousand gain).

Breakdown of investment income 2016

In € thousands	Available for sale	Loans and receivables	Total
Interest	18,649	219	**18,868**
Dividend	-363	–	**-363**
Total interest and dividends	**18,286**	**219**	**18,505**
Realised revaluations	439	64	**503**
Unrealised revaluations	–	–	**-**
Total revaluations	**439**	**64**	**503**
Total	**18,725**	**283**	**19,008**

20. Result on Derivatives

The result on derivatives in 2017 (€ -9,263 thousand) are a result of movements in interest (2016: € 17,864 thousand).

21. Technical Claims and Benefits

Technical claims and benefits include claims paid, direct claim handling costs and changes in claims payable.

Breakdown of Technical Claims and Benefits

	Gross		Reinsurance		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Claims paid	434,634	469,605	-30,477	-26,110	404,157	443,495
Change in provision for reported claims	-62,216	6,707	22,425	-6,755	-39,791	-48[1]
Change in provision for claims incurred but not reported	8,775	-20,012	6,152	2,225	14,927	-17,787
Total	**381,193**	**456,300**	**-1,900**	**-30,640**	**379,293**	**425,660**

[1] The technical charges 2016, as reported in this annual report 2017, has been adjusted compared to the technical charges as reported in the annual report 2016 for + € 3,500 thousand. For further explanation see paragraph 6.1.2.

22. Acquisition Costs for Insurance Activities

Breakdown of Acquisition Costs for Insurance Activities

In € thousands	**2017**	**2016**
Acquisition costs	137,079	136,164
Reinsurance	-6,908	-7,284
Totaal	**130,171**	**128,880**

23. Staff Costs

Breakdown of Staff Costs

In € thousands	**2017**	**2016**
Salaries	21,141	15,636
Pension costs	4,212	3,315
Social security contributions	3,415	2,662
Other staff costs	60,608	88,166
Total	**89,376**	**109,779**

Other staff costs consists mainly of staff costs recharged by VIVAT NV. The decrease of other staff costs relates to the decrease of restructuring charges from VIVAT NV.

24. Other Operating Expenses

Breakdown of Other Operating Expenses

In € thousands	**2017**	**2016**
IT systems	7,506	9,237
Marketing and public relations	8,700	4,510
External advisors	3,221	4,980
Other costs	15,303	12,621
Total	**34,730**	**31,348**

25. Impairment Losses (Reversals)

Breakdown of Impairment Losses / Reversals by Class of Asset

	Impairments		Reversals		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
> Through profit or loss						
Intangible assets	–	12,307	–	–	**–**	**12,307**
Investments	136	2	–	–	**136**	**2**
Other debts	301	–	38	1	**263**	**-1**
Total through profit or loss	**437**	**12,309**	**38**	**1**	**399**	**12,308**

26. Other Interest Expenses

Breakdown of Other Interest Expenses

In € thousands	2017	2016
Private loans	9,961	6,241
Interest deposits	629	672
Other interest and investment expenses	140	232
Total	**10,730**	**7,145**

27. Income Tax

Breakdown of Tax Expense

In € thousands	2017	2016
In financial year	7,194	-15,026
Prior year adjustments	-329	–
Corporate income tax due	**6,865**	**-15,026**
Due to temporary differences	-5,554	-735
Deferred tax	**-5,554**	**-735**
Total	**1,311**	**-15,761**

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	2017	2016
Statutory income tax rate	25.0%	25.0%
Result before tax	7,451	-62,880[1]
Statutory corporate income tax amount	**1,863**	**-15,720**
Effect of participation exemption	-223	-41
Prior year adjustments *(including tax provision release)*	-329	–
Total	**1,311**	**-15,761**
Effective tax rate	17.6%	25.1%

[1] The 2016 operating profit before tax, as reported in this annual report 2017, amounting to € -62,880 thousand, has been adjusted compared to the result before tax reported in the annual report 2016 (€ -75,593 thousand). For further explanation see paragraph 6.1.2.

The effective tax rate of 17.6% is caused by the prior year adjustments (€ -329 thousand) and the relatively high effect of the participation exemption.

The Dutch government announced, following a verdict from the European Court of Justice of 22 February 2018, that it intends to publish a proposal of law affecting the tax position of consolidated tax groups in the second quarter of 2018. The proposed legislation is expected to have retroactive force until 25 October 2017 and may therefore, when enacted, have a financial impact on the tax year 2017.

28. Financial Instruments

Fair Value of Financial Assets and Liabilities

The table below shows the fair value of VIVAT Schade's financial assets and liabilities. It only shows the financial assets and financial liabilities and does not include items that do not meet the definition of a financial asset or liability. The total fair value shown below does not represent the value of the company as a whole.

Fair Value of Financial Assets and Liabilities

In € thousands	Fair value 2017	Carrying amount 2017	Fair value 2016	Carrying amount 2016
Financial assets				
Investments				
- Available for sale	1,515,667	1,515,667	1,633,680	1,633,680
- Loans and receivables	51,586	51,559	1,912	1,857
Derivatives	18,511	18,511	30,292	30,292
Other assets	70,821	70,821	48,672	48,672
Cash and cash equivalents	45,957	45,957	53,043	53,043
Total financial assets	**1,702,542**	**1,702,515**	**1,767,599**	**1,767,544**
Financial liabilities				
Subordinated debts	156,667	150,000	157,854	150,000
Derivatives	7,803	7,803	10,321	10,321
Amounts due to banks	15,667	15,667	22,309	22,309
Other liabilities	99,192	99,192	96,896	96,896
Total financial liabilities	**279,329**	**272,662**	**287,380**	**279,526**

The fair values represent the amount that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the reporting date. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If prices in an active market are not available, various valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. Where possible and if available, the valuation techniques make use of observable inputs in relevant markets. Changes in assumptions can significantly influence estimated fair values. The main assumptions for each item are explained in the section on fair value hierarchy below.

The carrying amount of financial assets and liabilities at amortised cost is shown excluding accrued interest. Accrued interest related to these instruments is recognised within other assets or other liabilities.

Notes to the Measurement of Financial Assets and Liabilities

The following methods and assumptions are used to determine the fair value of financial instruments.

Investments

The fair value of equities is based on quoted prices in an active market or other available market data. The fair value of interest-bearing securities, exclusive of mortgage loans, is also based on quoted market prices or if actively quoted market prices are not available, on the discounted value of expected future cash flows. These discounted values are based on the relevant market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the investment.

Derivatives

The fair value of nearly all derivatives is based on observable market inputs, such as market interest rates and foreign exchange rates. The fair value of a number of non-publicly traded derivatives depends on the type of instrument and is based on a discounted value model or an option valuation model.

Other Assets

Given the predominantly short-term nature of other assets, the carrying amount is considered to be a reasonable approximation of the fair value.

Cash and Cash Equivalents

The carrying amount of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Subordinated Debts

The fair value of subordinated debts has been estimated based on the discounted value of future cash flows, using the prevailing interest rate plus a risk premium. The risk premium is based on the credit risk assumed by the market at years' end for holding subordinated debt issued by VIVAT Schade, differentiated by maturity and type of instrument.

Amounts Due to Banks

The fair value of amounts due to banks has been estimated based on the discounted value of the future cash flows, using the prevailing interest rate plus a risk premium. The risk premium is based on the credit risk assumed by the market for holding such instruments issued by VIVAT Schade, differentiated by maturity and type of instrument. The carrying amount of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other Liabilities

The carrying amount of the other liabilities is considered to be a reasonable approximation of the fair value.

Hierarchy in Determining The Fair Value of Financial Instruments

A large part of the financial instruments is recognised at fair value. The fair value of financial instruments measured at fair value in the statement of financial position or for which the fair value is disclosed is classified as a level. This level depends on the parameters used to determine fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair Value Based on Quoted Prices in an Active Market

Quoted prices from exchanges, brokers or pricing institutions are observable for all financial instruments in this valuation category. In addition, these financial instruments are traded on an active market, which allows the price to accurately reflect current and regular market transactions between independent parties. The investments in this category mainly concern listed equities and bonds, including investment funds on account of policyholders whose underlying investments are listed.

Level 2 – Fair Value Based on Observable Inputs

This category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market inputs. These instruments are mostly privately negotiated derivatives and private loans. This category also includes investments whose prices have been supplied by brokers but for which there are inactive markets. In these cases, available prices are largely supported and validated using market inputs, including market rates and actual risk premiums related to credit rating and sector classification.

Level 3 – Fair Value not Based on Observable Market Data

The financial instruments in this category have been assessed individually. The valuation is based on management's best estimate, taking into account most recently known prices. In many cases analyses prepared by external valuation agencies are used. These analyses are based on data unobservable in the market, such as assumed default rates associated with certain ratings.

The table below shows the instruments in level 1, level 2 and level 3. Financial assets and liabilities not measured at fair value and whose carrying amount is a reasonable approximation of fair value are not classified by level.

Fair value hierarchy 2017

		Fair value			
In € thousands	Carrying amount	Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,515,667	1,458,885	14,413	42,369	**1,515,667**
Derivatives	18,511	–	18,511	–	**18,511**
> Financial assets not measured at fair value					
Investments loans and advances	51,559	–	51,586	–	**51,586**
Other assets	70,821	70,821	–	–	**70,821**
Cash and cash equivalents	45,957	45,957	–	–	**45,957**
> Financial liabilities measured at fair value					
Derivatives	7,803	–	7,803	–	**7,803**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	–	150,000	–	**150,000**
Amounts due to banks	15,667	–	15,667	–	**15,667**
Other liabilities	99,192	99,192	–	–	**99,192**

Fair value hierarchy 2016

		Fair value			
In € thousands	Carrying amount	Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,633,680	1,565,754	16,838	51,088	**1,633,680**
Derivatives	30,292	–	30,292	–	**30,292**
> Financial assets not measured at fair value					
Investments loans and advances	1,857	–	1,912	–	**1,912**
Other assets	48,672	48,672	–	–	**48,672**
Cash and cash equivalents	53,043	53,043	–	–	**53,043**
> Financial liabilities measured at fair value					
Derivatives	10,321	–	10,321	–	**10,321**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	150,000	–	–	**150,000**
Amounts due to shareholder	22,309	–	22,309	–	**22,309**
Other liabilities	96,896	96,896	–	–	**96,896**

The table below shows the movements in financial instruments measured at fair value and classified in level 3.

Change in Level 3 Financial Instruments in 2017

In € thousands	Available for sale
Balance as at 1 January	51,088
Unrealised gains or losses recognised in other comprehensive income	-272
Sale/settlements	-6,687
Other	-3
Transfer from level 3	-1,757
Balance as at 31 December	**42,369**
Total gains and losses included in profit or loss	-

Change in Level 3 Financial Instruments in 2016

In € thousands	Available for sale
Balance as at 1 January	42,751
Transfer to level 3	2,894
Realised gains or losses recognised in profit or loss	-2
Unrealised gains or losses recognised in other comprehensive income	2,071
Purchase/acquisition	8,117
Sale/settlements	-4,608
Other	-135
Balance as at 31 December	**51,088**
Total gains and losses included in profit or loss	-2

Breakdown of Level 3 Financial Instruments

In € thousands	2017	2016
Bonds issued by financial institutions	6,226	5,542
Collateralised debt obligation	-	9,370
Equities	36,143	36,176
Total	**42,369**	**51,088**

The fair value of financial instruments classified in level 3 is based in part on inputs that are not observable in the market. The values of CDOs and CLOs classified in level 3 are determined by calculating scenarios using best estimates of data unobservable in the market. The main non-observable data are the expected defaults in the underlying portfolios and the implied discount rate. A stress scenario involving a higher expected loss on the principal, for instance, would result in a significant decrease in the fair value of the instrument.

Impairments of Financial Instruments by Category

	Level 1		Level 2		Level 3		Total	
In € thousands	2017	2016	2017	2016	2017	2016	**2017**	**2016**
Equities	135	-	-	-	-	2	**135**	**2**
Total	**135**	**-**	**-**	**-**	**-**	**2**	**135**	**2**

The table below shows movements in the financial assets and liabilities measured at fair value between the levels.

Reclassification Between Categories 2017

In € thousands	to Level 1	to Level 2	to Level 3	Total
From:				
Not based on observable market data (Level 3)	-	1,757	-	**1,757**

Reclassification Between Levels 1, 2 and 3

Shift Between Levels 2 and 3

At year-end 2017, € 1,757 thousand (2016: € 1 million) was transferred from level 3 to level 2 for investments that were significantly more traded. These investments mainly consist of collateralised securities for which no quoted prices are available but whose fair value is determined using models.

At year-end 2016, € 2,894 thousand was transferred from level 2 to level 3 for investments that were significantly less traded. Therefore, available prices for these investments are largely supported and validated using market inputs resulting in an increase in measurement uncertainty.

Offsetting Financial Assets and Liabilities

The table below shows the financial assets and liabilities that are subject to offsetting and the related amounts that are not set off but serve to mitigate credit risk.

Financial Assets and Liabilities 2017

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	18,511	-	18,511	18,557	-	-	-46
Total financial assets	**18,511**	**-**	**18,511**	**18,557**	**-**	**-**	**-46**
Financial liabilities							
Derivatives	7,803	-	7,803	7,803			
Total financial liabilities	**7,803**	**-**	**7,803**	**7,803**	**-**	**-**	**-**

Financial Assets and Liabilities 2016

In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Related amounts not netted in the carrying amount: Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	30,292	–	30,292	–	–	–	30,292
Total financial assets	**30,292**	**–**	**30,292**	**–**	**–**	**–**	**30,292**
Financial liabilities							
Derivatives	10,321	–	10,321	–	21,480	–	-11,159
Total financial liabilities	**10,321**	**–**	**10,321**	**–**	**21,480**	**–**	**-11,159**

At year-end 2016, VIVAT Schade received collateral from third parties by virtue of derivative exposures. An amount of € 15,500 thousand of this collateral has been reinvested in a money-market fund.

Management of Past Due and Impaired Assets

The table below sets out the financial instruments by arrears and/or impairment.

Financial Instruments - Impairments 2017

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	1,514,281	–	2,431	-1,045	**1,515,667**
Loans and receivables	51,559	–	–	–	**51,559**
Other financial assets	71,795	2,851	–	-3,825	**70,821**
Total	**1,637,635**	**2,851**	**2,431**	**-4,870**	**1,638,047**

Financial Instruments - Impairments 2016

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	1,403,681	–	-1	–	**1,403,680**
Loans and receivables	1,857	–	–	–	**1,857**
Other financial assets	53,312	1,088	–	-2,894	**51,506**
Total	**1,458,850**	**1,088**	**-1**	**-2,894**	**1,457,043**

VIVAT Schade recognises impairments on equities if the market value has fallen to 25% below cost price, or has been at least 5% below cost price uninterruptedly for at least nine months.

VIVAT Schade recognises impairments on fixed-income financial instruments if there is a loss event related to the financial instrument. To identify such events, the financial instruments are periodically assessed on the basis of a number of criteria set by the Financial Committee. Financial instruments meeting one or more of these criteria are analysed and assessed individually to determine whether there is a loss event.

29. Hedging

VIVAT Schade uses various strategies for its insurance business to hedge its interest rate risk.

The nominal amounts of the derivatives used for hedging purposes shown in the table below reflect the degree to which VIVAT Schade is active in the relevant markets.

Derivatives for Hedging Purposes 2017

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	400,000	298,000	**698,000**	18,511	-7,803
Total	**-**	**400,000**	**298,000**	**698,000**	**18,511**	**-7,803**

Derivatives for Hedging Purposes 2016

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	400,000	298,000	**698,000**	30,292	-10,321
Total	**-**	**400,000**	**298,000**	**698,000**	**30,292**	**-10,321**

The notionals of the derivatives are not disclosed netted (positive and negative).

The nominal amounts are the units of account relating to the derivatives, specifying the relationship with the underlying values of the primary financial instruments. These nominal amounts are not an indication of the size of the cash flows or market and credit risks relating to the transactions.

30. List of Principal Subsidiaries

Overview of Principal Subsidiaries

Name	Country of incorporation and place of business	Nature of business or industry	Proportion of ordinary shares directly held by parent (%)
Nieuw Rotterdam Knight Schippers BV	The Netherlands, Utrecht	Insurance	100
W. Haagman & Co. BV	The Netherlands, Utrecht	Insurance	100
Volmachtkantoor Nederland BV	The Netherlands, Assen	Insurance	100

7. Managing Risks

7.1. Risk Management System

7.1.1. General

VIVAT Schade has established a Risk Management System that is aimed at a controlled and effective achievement of the strategic objectives. It relates risks to the strategic, financial and operational objectives as well as to the objectives in the areas of sustainability and reputation. The framework consists of organizational, control and culture components. The management of VIVAT Schade recognises that transparency is a vital element in effective risk management. The Executive Board and the VIVAT Risk Committee (VRC), which is responsible for setting the Risk Management System, monitor that the desired culture and level of risk awareness are translated into identifiable aspects, such as desirable behaviour, details of the risk appetite or criteria for evaluation of employees.

The Executive Board of VIVAT has set guidelines in the areas of strategy, culture and risk governance in order to enable risk assessments to be performed properly and efficiently. These guidelines apply to the entire organisation. VIVAT Schade seeks to have an open culture in which risks can be discussed, employees feel a responsibility to share information on risks and (pro)active risk management is appreciated.

The established Integrated Control Framework (ICF) provides the basis for the internal control system on risk maturity of process key controls and management controls within VIVAT Schade. The management of Product or Functional Lines is responsible for day-to-day operations within the Risk Management System, schedules the testing of operating effectiveness of key controls and prepares operational plans on a yearly basis. These plans are subject to the approval of the Executive Board of VIVAT.

For all components within the ICF, standards include applicable minimum requirements. All components of VIVAT Schade are scored by a yearly assessment of all Management Controls, in which both first line and second line of defence are involved.

7.1.2. Overview

In the Risk Management System, specific Solvency II requirements such as the Key Functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. The Risk Management System of VIVAT Schade operates an integrated approach for risks that the organisation is or could be exposed to, with Risk Management being an integral part of the decision making process. Major decisions of the Executive Board have to be accompanied by a Key Function opinion.

The core of the Risk Management System consists of a Governance part at which, starting from the Vision and Mission and business strategy, the Risk Strategy and Risk Appetite are derived. The components Risk Policy, Risk Classification and Risk Organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the second line Key Functions and the business use the same risk classification, operations are covered by the Risk Appetite and are aligned by a policy structure.

Governance including an adequate Risk Culture, is conditional for performing risk management on tactical and operational level, with as the core a control cycle of risk identification-measurement- mitigation and continuous monitoring and reporting. The Risk Management Process is supported by the ICF, build up from several components that together form the basis for sound and controlled business operations and hence for visibly being in control of VIVAT Schade and its Product line. The ICF measures maturity of risk management and ensures steering on correct and complete risk reports.

The internal reports are a part of (the operation of) the Risk Management Process. The reports on recognized types of risks are input for the integrated risk reports, enabling Key Risk Indicator (KRI) monitoring and drawing management attention to deviations of the risk tolerance limits.

VIVAT Schade performs Risk Self Assessments (RSA) and Strategic Risk Assessments (SRA). An ORSA is incorporated in the VIVAT Schade Risk Management System and is performed at least annually.

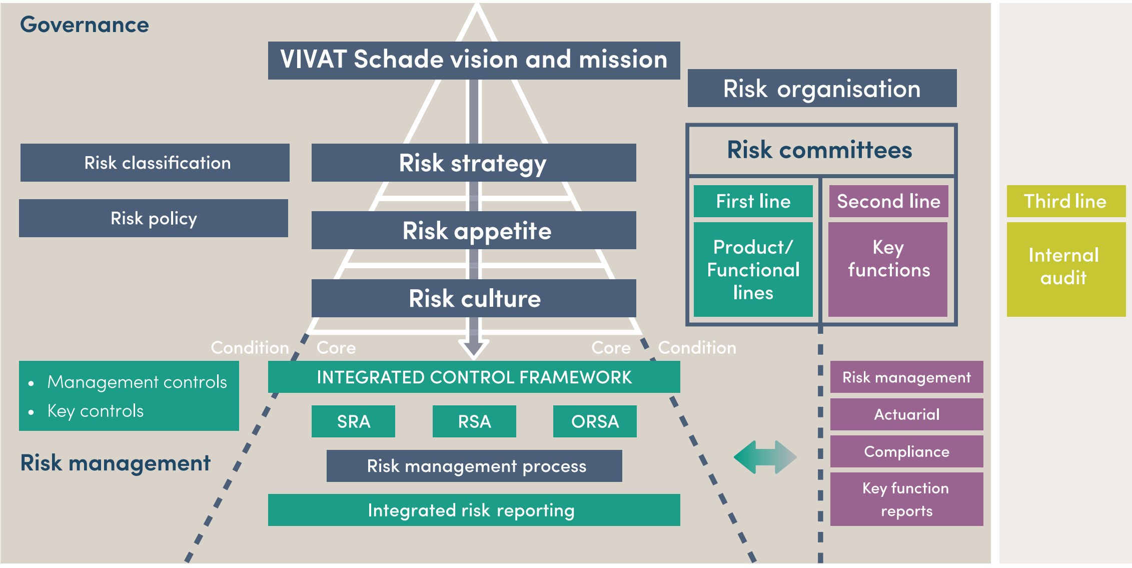


Figure 7: Risk Management

7.2. Risk Management Governance

7.2.1. Mission and Vision

The vision of VIVAT Schade to be a leading financial service provider results in a mission, focusing on comprehensive products and services leveraging state of the art technologies. From this starting point, the Risk Strategy contributes to a sustainable profitable growth of VIVAT, for the benefit of all its stakeholders.

VIVAT Schade takes its role in society seriously. Corporate responsibilitiy (CR) forms an integral part of the strategy and business operations. VIVAT Schade wishes to offer competitively priced products in efficient business processes, using a central back office in addition. VIVAT Schade pursues a customer-centric strategy, with Reaal positioned clearly. The focus on this flagship brand allows for a more agile and lean operation bringing costs to a lower required level.

7.2.2. Risk Strategy

VIVAT has derived a Risk Strategy, a supporting set of objectives following from the VIVAT vision and mission to achieve the strategic goals. VIVAT aims for a robust and strong capital position, which contributes to both the confidence that customers have in the institution and the access to financial markets. VIVAT offers competitively priced products by utilising economies of scale in its organisation. The Risk Strategy is expressed in the Risk Appetite.

As main principles VIVAT has defined a robust capital position, stable profitability, a prudent and consistent risk policy, regulatory compliance, social responsibility and effective and efficient customer solutions.

VIVAT provides guarantees for future payments to its customer and therefore VIVAT needs a strong capital position. The Executive Board would like to hold a buffer above regulatory requirement to absorb temporary volatility and provide more certainty to its customers.

7.2.3. Risk Appetite

The Risk Appetite is set yearly by the Executive Board and confirmed by the Risk Committee (RC) of the Supervisory Board. This is limited by the risk capacity, which indicates the maximum amount of risk VIVAT Schade can accept at consolidated level, in view of its capital and liquidity position and any restrictions due to funding agreements or requirements imposed by regulators. The Risk Appetite is subsequently translated into practical risk objectives.

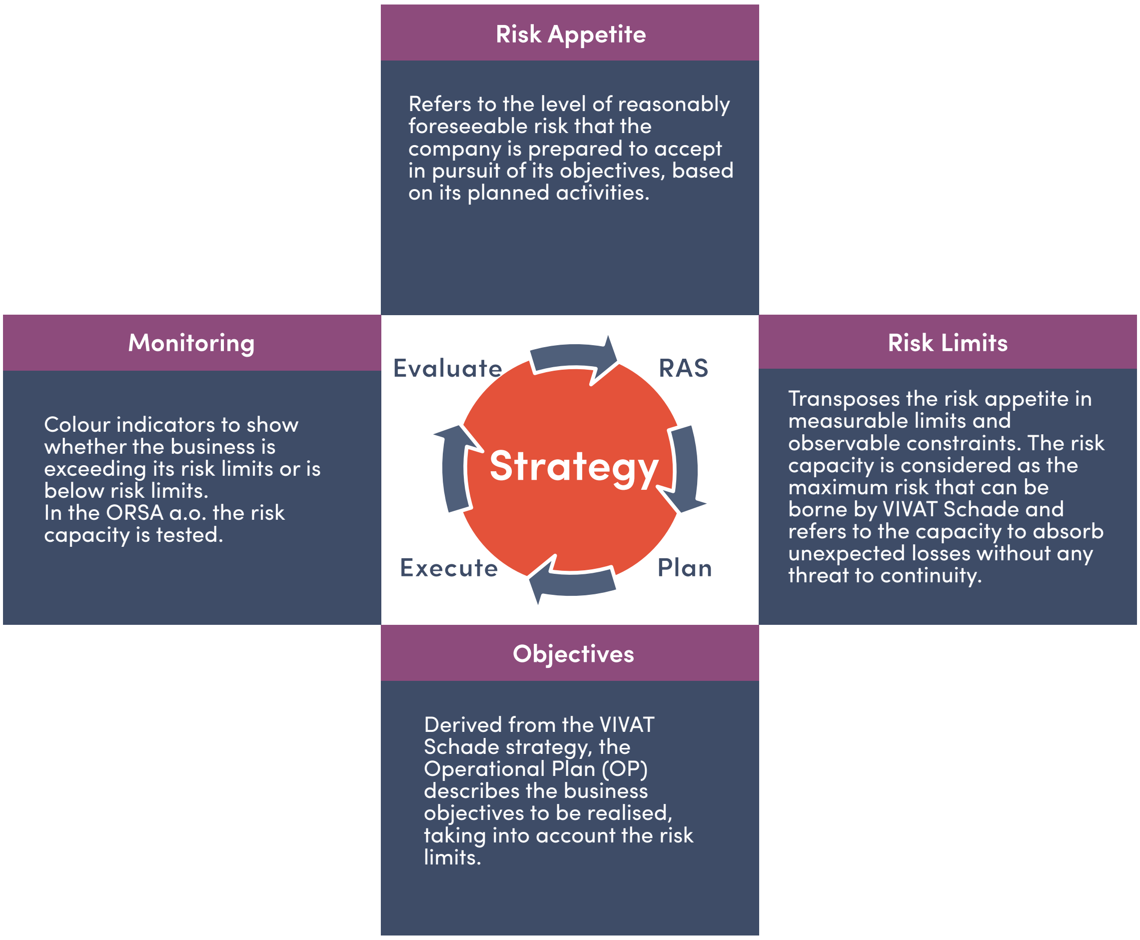


Figure 8: Risk Appetite framework

Risk Appetite is defined at VIVAT level, including VIVAT Schade. Subsequently it is developed in more detail on the individual legal entity level or specific Product or Functional Lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the Product Lines for establishing Operational plans, taking into account the set Risk Appetite and corresponding limits. With those objectives and constraints as starting point, the Product Lines optimize risk and return by developing the best possible products and services.

The Risk Appetite evaluation, which is carried out at least once a year, consists of a number of steps, including risk identification, the determination of risk capacity, the selection of measures, risk mitigation, risk criteria, reporting and monitoring.

7.2.4. Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. VIVAT Schade has awareness programs in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. VIVAT Schade has five core behaviours: Client Focus, Result Driven, Immediate Execution, Take Responsibility and Change Attitude.

VIVAT Schade realises that the tone at the top is defining for Risk Culture, which makes communication and exemplary behaviour determinant. VIVAT Schade encourages an open corporate culture in which risks are to be discussed, employees feel responsible to share knowledge on risks and where (pro) active risk management is appreciated. Exemplary behaviour, the openness for discussion of dilemmas, practicability of policy and transparency are inseparably linked to an open corporate culture.

Risk Culture is also embedded in the organisation by risk management being an integral part of the organizational processes and decision making of VIVAT Schade. Decision making is clear, explicit, and in line with the Risk Policy and Risk Appetite of VIVAT Schade. The management teams of the Product Lines and Functional Lines promote awareness of risks and are supported by the second line departments of the Risk organisation. The management teams are responsible for ensuring that risk decisions are made in accordance with the delegated authorities, in consultation with all second line Solvency II key functions.

Furthermore, VIVAT Schade ensures that senior management and employees on key functions are fit and proper to fulfill their job. Finally, VIVATs Remuneration Policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

7.2.5. Risk Organisation

VIVAT Schade implemented the “Three Lines of Defence” control model (3LoD) including the Solvency II Key Functions and a risk committee governance structure. It contributes to the strengthening of the Risk Culture, taking responsibility for managing risks and internal control, and eventually to the further optimization and integration of the risk management.

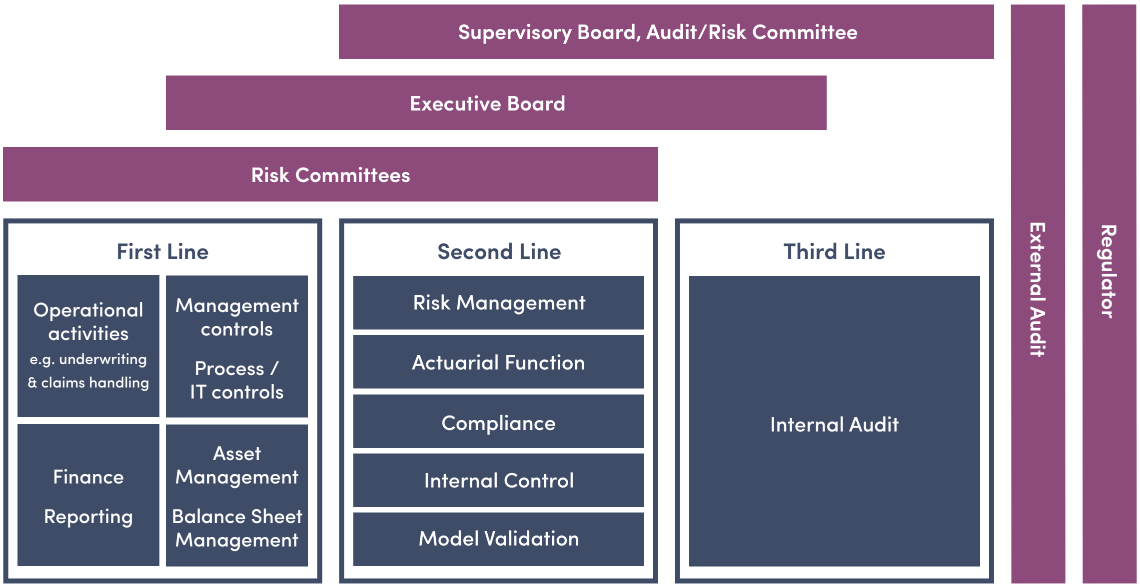


Figure 9: Three Lines of Defence

First line: risk taker

Business plans are prepared in the first line. With this preparation, the first line operationalises the (risk) strategy, focusing on the primary process (i.e. underwriting, claims handling, preparing financial accounts) of the business and investment activities.

Within the policy framework and subject to internal procedures and risk limits, it is the objective of the risk taker to achieve an optimum risk/return. Consequently risks are managed by identifying, measuring, mitigating and monitoring them and report whether the risks remain within the risk appetite of VIVAT and its underlying entities, including VIVAT Schade.

Risk Self Assessments are carried out and in combination with the ORSA, these assessments could lead to changes in the (risk) strategy. For all these activities the first line has an active role in various risk committees including the ability to demonstrate management and process controls according to the standards as set by the ICF.

Second line: risk management

The second line has a monitoring role in respect of the risk management actions and activities carried out by the first line. The second line assesses actions in the first line as well as the effectiveness of procedures by means of testing key controls, and is responsible for monitoring the overall risk profile to be in line with the risk appetite.

The second line is also responsible for formulating the Risk Management System and setting Risk Policies. The first line is responsible for the execution of these policies. The second line assesses policy compliance on a regular basis, using risk reports, reports on management and process key controls and own observations. Furthermore, the second line sets the mandates in line with the risk appetite. It also defines basic principles and preconditions for risk models and the control framework and supports central decision-making bodies. The data used, including models, assumptions and techniques, are validated periodically.

The second line risk management organisation of VIVAT, including VIVAT Schade, is part of the Risk department, resorting under the Chief Risk Officer (CRO). This department includes the second line Financial and Non-Financial Risk departments. The CRO is member of the Executive Board.

Third line: internal audit

Audit VIVAT is the independently operating audit function and has a supervising role assessing the functioning of the risk management system (including the interaction between first and second line).

Audit VIVAT does not take part in determining, implementing or steering of the risk policy. Audit VIVAT reports to the chairman of the Executive Board of VIVAT and has a reporting line to the Chairman of the Audit Committee of the Supervisory Board of VIVAT.

Audit performs independent and objective audits and reviews to assess whether there is an adequate and efficient Risk Management System within the business processes which supports the realisation of the organisation's strategic objectives; whether there is sufficient, reliable management information, which is used for testing the realisation of the objectives and whether (business, financial, reporting or other) processes are efficient and effective. Furthermore, Audit VIVAT assesses whether VIVAT Schade complies with laws and regulations and if assets (e.g. physical, intellectual, policy & company data) are safeguarded adequately. The agenda of Audit VIVAT is determined by the Audit Committee.

In the quarterly report, Audit VIVAT informs the Executive Board and the Audit Committee of VIVAT. This quarterly report contains at least an executive summary containing findings and issues relating to deficiencies regarding the governance, internal control and risk management system, findings and observations that are substantial for the risk profile, the executive summary of all audits reported in the quarter and a follow-up monitoring of recommendations of Audit, regulators and external auditor.

Risk Committees

In addition to the risk management organisation, VIVAT has established Risk Committees to manage risks effectively. VIVAT has established at Group level the following Risk Committees: VIVAT Risk Committee (VRC), Asset Liability Committee (ALCO), Policies Models and Assumptions Committee (PMAC), Investment Committee (IC) and Product Committee (PC). The latter is leading for the underlying PMP MT's (Product, Marketing, Pricing) in the Product Lines. In the ORC MT's, the issues regarding Operational Risk and Compliance are discussed.

Key Functions

In accordance with Solvency II VIVAT recognizes four Key Functions. A function as intended in Solvency II is not a person or a department but an internal capacity to perform certain tasks and responsibilities. The Functions are established on Group level and carry out activities on behalf of all insurance entities of VIVAT, including VIVAT Schade. The CRO is the Risk Management Function Holder, the Director Financial Risk is the Actuarial Function Holder and the Director Non-financial Risk is the Compliance Function Holder. The Director Audit VIVAT is the Audit Function Holder.

The Enterprise Risk Management Report (ERM Report) is an integrated comprehensive report on the major financial and non-financial risks within VIVAT. It consists of reports from the three second line Key Functions (Risk Management Function, Actuarial Function and Compliance Function) and shows both the development and the outlook with regard to actuarial, financial, model and non-financial risks, and in addition strategic developments. The ERM Report presents both new and progress on existing high risk findings and/or issues compiled on the basis of the information obtained from monitoring reports, risk dashboards, RAS, Internal Control Statements, reports by internal and external regulators, incidents and issues reported, and own assessments & perceptions. It contains a second line opinion on the development of the various risks, the dependency, and the impact on OP, solvency and strategy. The Risk opinion is discussed in the risk committees and in EB, VRC and the Risk Committee of the SB.

The Actuarial Function opines on the adequacy of the Technical Provision used for IFRS-LAT and Solvency II purposes. It furthermore assesses the reliability and adequacy of Underwriting and Reinsurance programs. The Actuarial Function Report (AFR) is submitted to the VRC and the Audit Committee of the Supervisory Board. Regularly the AF submits an update based on the findings in the AFR, supplemented with recent findings and advices. This update is part of the ERM Report.

The main purpose of the Compliance Function is to support management in conducting its business operations in a controlled, honest and sound manner, and with regard to the risks which in this context are a threat to achieving the strategic objectives, obligations arising from laws and regulations, insights from social discussions and guidelines imposed by regulators. The Compliance Function provides regularly, as part of the ERM Report, a report on the most important Compliance Risks of VIVAT Schade to the VRC and the Risk Committee of the Supervisory Board.

7.2.6. Risk Policy

VIVAT Schade has an integrated risk management policy structure incorporated in that of VIVAT. The entire policy structure is accessible to employees through the internal policy site. The policy structure ensures the timely identification and assessment of risks and adequate monitoring and reporting of the material risks, both on board and workplace level. The Risk Policy is structured in levels, the aim is to give insight in the cascading from (Solvency II-) legislation, (second line) risk policy, corresponding processes and (first line) implementation. At least once a year the Risk Policies are assessed, adjusted if necessary and approved following regular governance.

7.2.7. Risk Classification

VIVAT Schade provides insight into the risks for the business itself and for its stakeholders to manage these risks within the indicated tolerance levels. This includes both behaviour related and financial aspects of Risk Management. To provide clarity in the communication and management of risks, the risk classification incorporates a comprehensive list of mutually exclusive risk types to which VIVAT Schade is exposed or could be exposed to.

VIVAT Schade has defined and structured different risk types, partly on the basis of applicable laws and regulations (such as Solvency II Standard Formula), and partly on own assessment of risks given VIVAT's risk profile. As part of its strategy, VIVAT deliberately takes Underwriting risks and Market risks aiming for returns. As a consequence, taking Counterparty risk and Liquidity risk may contribute to those returns. Compliance risk and Operational risks are inherent risks that do not provide more returns when taking more risk and have to be controlled and managed at a minimal level.

Strategic developments (governance, positioning, external developments) relate to future business developments and may eventually emerge as one of the main or sub risk types and are monitored in the ERM Report. In the risk assessment on the Operational Plans several internal and external strategic development scenarios are taken into account.

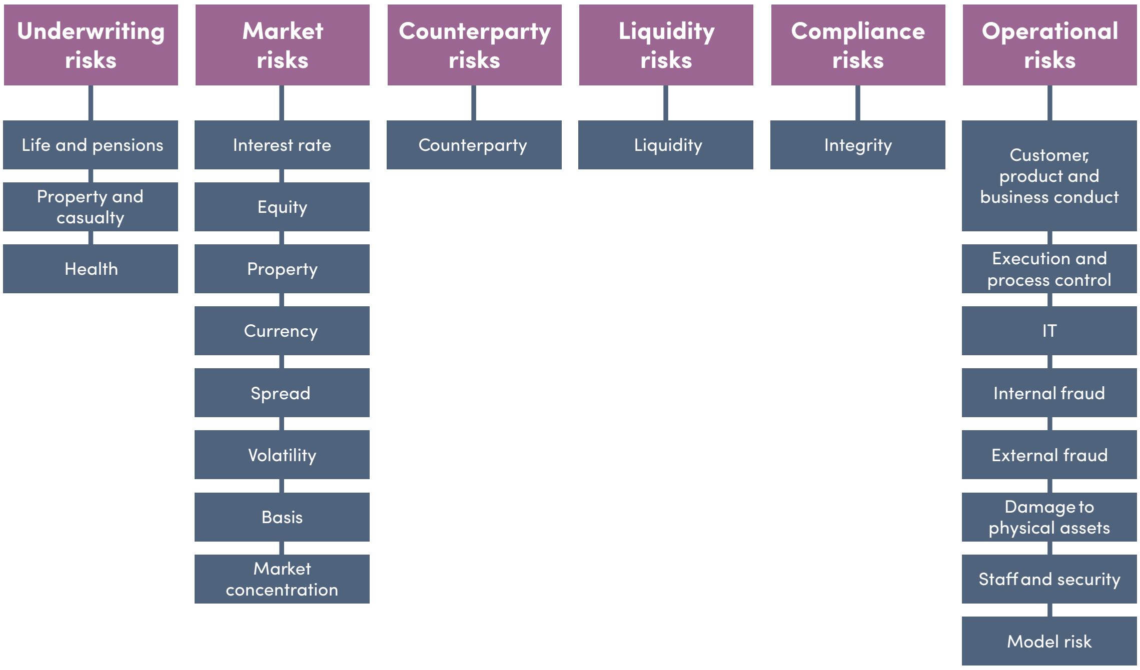


Figure 10: Risk classification

Not all of the risk categories are part of the Solvency Capital Requirement (SCR) calculation. The SCR calculation does not contain Liquidity and Compliance Risk.

The risk categories will be explained in the more detail in the next paragraphs.

To give more insight in the risks the company is exposed to, sensitivities are determined on best effort basis for different underwriting and market risks in paragraph 7.5 and further. For underwriting risks and spread risks the sensitivities shown are the estimated impact on own funds without recalculating the SCR after shock. For the other market risks the sensitivities shown are the estimated impact on own funds including the estimated impact on the SCR market risk after shock.

7.3. Risk Control

Risk Management is a continuous process of identifying and assessing risks and establishing controls. Risk management is an inextricable part of the strategy, policy, processes, procedures, operational embedding, allocation of capacity and responsibilities, and independent testing of control effectiveness. The first and second line departments have been assigned a responsibility in this process, which is supported by the Integrated Control Framework (ICF).

7.3.1. Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management and process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and VIVAT Schade's risk appetite. This enables the identification of gaps in the control framework and monitoring on follow-up using an standardized approach.

The ICF forms the basis for sound and controlled operations within VIVAT Schade and monitors Process Controls and Management Controls.

7.3.2. Process Controls and Management Controls

The effectiveness of Process (key) Controls within VIVAT Schade is scheduled each quarter for independent testing by first line management. The second line (internal control) subsequently performs reviews or reperformance.

Management Controls (or Entity level Controls) give insight in the maturity of risk management and mitigation in the individual product- and functional lines. The standards and control objectives used relate to relevant legislation (e.g. WFT, Solvency II) and internal policies.

In 2017 Integrated Risk Management was further optimized by implementation of special tooling and further alignment / development of policies and procedures regarding Process Management, Action monitoring and the Loss Database. Reports from the tooling will be used to further analyse and improve the completeness and quality of design for both management and process controls based on all risk categories as described in the risk classification.

During 2017 VIVAT Schade has performed a self-assessment on management controls (or Entity level Controls). Based on this assessment it was found that the overall maturity level improved significantly in comparison to last year due to:

- Formalised Strategy setting & embedding in performance management
- Reinforcement first line Risk Management
- Expansion of Integrated Risk Management

The self-assessment also identified improvements that will be implemented in 2018.

7.4. Capital Management

7.4.1. Definition

Capitalisation refers to the extent to which VIVAT Schade has capital to cover unforeseen losses and to achieve the strategic objectives of the company. The required capital of VIVAT Schade has to meet internal risk appetite standards as well as external requirements of regulators, rating agencies and also includes commercial considerations. Capitalisation generally refers to the relationship between risk-bearing activities and available regulatory capital (own funds).

7.4.2. Capital Policy

The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet legal requirements. The second objective of the Capital Policy is to ensure capital is used as efficiently and flexibly as possible to facilitate the implementation of VIVAT Schade's strategy.

In addition to the Capital Policy, a Recovery Plan exists which describes the procedure that applies in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of VIVAT Schade in its current form. In its Risk Appetite Statements, VIVAT Schade has defined specific triggers that determine whether a contingency situation exists. The emphasis of these triggers is on capital metrics and these are linked to governance and management measures. VIVAT Schade's Capital Policy forms the basis for lower level policies, process descriptions and procedures.

Management uses the Capital and Funding Plan, ALM study, Risk Dashboards, ORSA, Recovery Plan and Financial Risk Reporting for the purpose of managing the capital position. The Capital and Funding Plan describes the medium-term activities in the area of capital and funding. This includes a forecast of solvency for the next five years. The Capital and Funding Plan is based on the Operational Plan as supplied by the underlying Product Line.

7.4.3. Regulatory Framework

Under Solvency II, the supervision of the risks to which an insurer is exposed and the management of those risks play a central role. The capital requirements reflect the risks to which insurers are exposed. Moreover, Solvency II aims to be in line with market developments and the internal risk management systems used by insurers.

Capitalisation is covered in all three pillars of the Solvency II framework:

The first pillar contains the prudential rules regarding minimum solvency. This pillar introduces two risk-weighted measures: the Minimum Capital Ratio (MCR), and the Solvency Capital Ratio (SCR).

The second pillar includes the ORSA, the process under which VIVAT, including VIVAT Schade has to evaluate its capitalisation periodically. A mandatory part of the ORSA involves determining whether the SCR is an appropriate measure for VIVAT Schade's risk profile.

The way in which VIVAT Schade has to report its exposure and capital adequacy to the market (disclosure) is laid down in the third pillar. VIVAT Schade discloses its solvency position and financial condition on a Solvency II basis by means of public reports as required by law. Solvency II applies to VIVAT Schade as an independent authorisation holder. Other parts of VIVAT Schade are not within the scope of Solvency II. The group regime does not apply to VIVAT Schade.

7.4.4. ORSA

As part of its risk-management system VIVAT Schade conducts its own risk and solvency assessment (ORSA). That assessment includes:

- the overall assessment of solvency taking into account the specific risk profile, approved risk tolerance limits and the business strategy of VIVAT Schade;
- the significance in which the risk profile of VIVAT Schade deviates from the assumptions underlying the SCR calculated with the standard formula.

The ORSA is an integral part of VIVAT Schade's management control cycle and is filed with the regulator. VIVAT has performed a 'single' ORSA for VIVAT and its underlying legal entities, including VIVAT Schade, as approved by the regulator.

7.4.4.1. ORSA Process

The ORSA considers external factors, the business strategy, future developments, the risk profile and risk appetite to assess the amount and quality of capital. An overview is shown in the figure below.

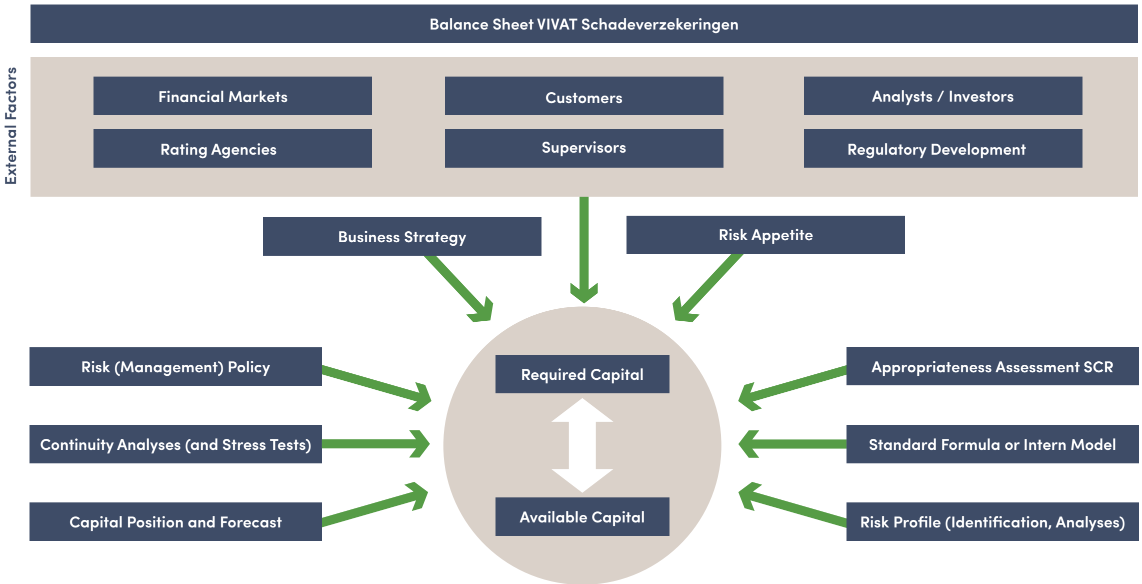


Figure 11: ORSA Process

The ORSA is performed annually for all entities of VIVAT, including VIVAT Schade, and if any significant change in its risk profile occurs. The Executive Board is owner of the ORSA and actively involved. Adequacy of capital is tested against a range of stressed scenarios thereby considering the possible effect of management actions.

7.4.4.2. Scenario Tests and Mitigating Action

Every year an extensive risk identification process takes place. The identified risks are subject to a wide range of stress scenarios. The selected stress scenarios are severe but possible and used to test the financial position of VIVAT Schade in case the risk occurs. This is in contrast to the Recovery Plan, where the scenarios should be severe enough to create a direct threat to the going concern of VIVAT Schade in its current form.

For all scenarios in the ORSA mitigating management actions have been assessed.

7.4.4.3. Main Conclusions

The ORSA concludes that for VIVAT Schade:

- the Solvency Capital Requirement (SCR) as calculated with the standard formula is appropriate;
- the Solvency is adequate on a forward looking medium term given the risk tolerance and the business strategy.

When taking into account mitigation actions VIVAT Schade's solvency is adequate for all evaluated stresses, including stress scenarios related to aforementioned risks.

7.4.5. Recovery Plan

VIVAT, including VIVAT Schade, is required to establish a recovery plan, which describes the procedures in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of VIVAT or VIVAT Schade in its current form. The Recovery Plan is updated on an annual basis. The Recovery Plan includes early warning indicators for emerging crises, a crisis management governance framework and the management actions VIVAT Schade has at its disposal in a crisis situation to maintain its core businesses viable for the future. The management actions are evaluated in a scenario analysis. The annual update of the Recovery Plan is performed in conjunction with the ORSA process and its results are shared with the regulator.

7.4.6. Capital Position

The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation of Solvency II and VIVAT Schade produces all regulatory reports that are mandatory under the Solvency II legislation.

For internal purposes, VIVAT Schade calculates the Solvency II position on a monthly basis. VIVAT Schade calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. VIVAT Schade does not apply the Matching Adjustment. The required and available capital (own funds) under Solvency II are determined on the basis of information at year-end 2017. The yield curve used as at 31 December 2017, including the Ultimate Forward Rate (UFR), Credit Risk Adjustment (CRA) and VA, is published by EIOPA.

When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement (SCR). VIVAT Schade has examined whether, following a loss of the same scale as the (pre-tax) SCR shock, future fiscal profits will be sufficient to be able to recover, partially or fully, the change in deferred tax asset created by that loss. The Loss Absorbing Capacity of Deferred Taxes in the SCR equals the net DTL-position.

Under Solvency II, capital is called 'eligible own funds' and is divided into three tiers. These tiers reflect the ability to absorb capital losses, with Tier 1 being the highest capital quality and Tier 3 the lowest. VIVAT Schade does not have 'ancillary own funds' (such as letters of credit and guarantees) which require supervisory approval.

The following table shows the breakdown of the eligible own funds, starting from shareholders' equity:

Breakdown Own Funds

In € millions	2017	2016
Shareholders' equity	350	358
Reconciliation IFRS-Solvency II	63	38
Subordinated liabilities	157	158
Total available own funds	**570**	**554**
Tiering restriction	-	-
Total eligible own funds	**570**	**554**

The following items result in differences between IFRS shareholders' equity and Solvency II own funds.

Reconciliation IFRS-Solvency II

The reconciliation encompasses the following significant differences in measurement under Solvency II and under IFRS:

- Technical provisions - Under Solvency II the technical provisions (including provisions for saving mortgages) are measured using Solvency II parameters, taking into account current market estimates. Under IFRS a liability adequacy test on the technical provision is performed, if the carrying amount of the technical provision is inadequate, the provision is increased. With respect to economic parameters used, there are differences regarding the interest rate curve and the cost of capital.
- Deferred Tax Liabilities - Due to differences in the valuation of the technical provisions the resulting DTL position is different.

Subordinated Liabilities

Under Solvency II the available own funds include subordinated debt including accrued interest with regard to this debt.

Tiering Restriction

The use of own funds of different tiers is subject to certain limits under Solvency II. These limits are related to the required capital or Tier 1 capital, and is applied to define the Eligible Own Funds. These limits cause a difference between the Available Own Funds and the Eligible Own Funds.

Breakdown tiering

	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2017	414	-	156	-	**570**
Eligible own funds to meet the SCR 2016	396	-	158	-	**554**

The main changes in 2017 in respect to reconciliation and tiering restrictions relate to changes in the VA and the impact of the decreased SCR on the tiering restrictions.

Solvency Capital Requirement

In € millions	2017	2016
Underwriting risk Non-Life	208	215
Underwriting risk Health	271	279
Market risk	29	33
Counterparty default risk	9	13
Diversification	-160	-168
Basic Solvency Capital Requirement	**357**	**372**
Operational risk	21	23
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	-27	-30
Net Solvency Capital Requirement	**351**	**365**

The main risk profile changes in 2017 relate to changes in market risk and counterparty default risk.

Changes in the item "Diversification" is the result of changes in the underlying risk modules. Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types. Interest rate shocks can also have an impact on the Loss-absorbing capacity of technical provisions (LAC TP). Article 83 of the Delegated Regulations requires to report this impact separately from the SCR Interest rate scenario. Therefore the SCR Interest rate scenario does not change the value.

The Loss Absorbing Capacity of Deferred Taxes in the SCR equals the net Deferred Tax Liability (DTL) for VIVAT Schade.

Capital Requirements of other financials sectors refer to holdings which are subject to a different regime than Solvency II.

Solvency II Ratio

In € millions/percentage	2017[1]	2016
Total eligible own funds	570	554
SCR	351	365
Solvency II ratio	162%	152%

1 Regulatory Solvency II ratio is according to Solvency II 2017 report

Contingent liabilities - Under Solvency II, VIVAT has not measured the contingent liability relating to unit-linked policies in calculating the own funds as no reliable estimate can be made of the outcome. This is consistent with the measurement under IFRS.

7.4.7. Risk Profile

VIVAT Schade is focusing on improving capital generation by re-risking, improving its combined ratio and value of new business, and further optimizing its risk profile taking into account its Risk Appetite. Optimizing will also decrease the spread risk which originates from differences between the VIVAT asset portfolio and the reference portfolio of the Volatility Adjustment (VA).

The process of reducing the spread mismatch between assets (mainly German and Dutch government bonds) and liabilities (mainly swap plus Volatility Adjustment) started in 2016. The basis risk was further mitigated during 2017 by replacing long duration German and Dutch government bonds by swaps combined with short duration government bonds.

The main risk profile changes in 2017 relate to changes in underwriting risk, market risk and counterparty default risk.

The parameter update for the disability portfolio resulted in lower disability rates and higher rehabilitation rates used for calculating the value of the liabilities, resulting in a lower disability-morbidity risk and a lower SCR.

The development of the SCR market risk is mainly due to normal market and portfolio developments.

Counterparty Default Risk decreased mainly due to ending the security lending program.

Development Solvency Ratio

The development in 2017 of the solvency ratio is explained by the analysis of change as presented in the graph below. The movement consists of the categories Capital Generation, Market Impacts, One-off items and Other.

The methodology for deriving the analysis of change is still under investigation and may be subject to change in 2018 and onward.

Capital Generation is the change of eligible own funds caused by realised organic capital generation due to expected asset return, release of risk margin, unwinding of the UFR and insurance results.

In market impacts the impact of economic variance to the asset return is taken into account (i.e. spread and interest rate movement). Next to these movements, also the change caused by volatility and symmetric adjustments is taken into account.

One-time items show the impact of events like mass lapse reinsurance contract, tier 1 and tier 2 capital changes and the corresponding impact on currency risk, ending of the security lending program and re-balancing the interest rate risk.

Other consists mainly of changes in models, insurance parameters, impact of tiering restrictions, as well as other business developments.

Analyses of Change Solvency Ratio

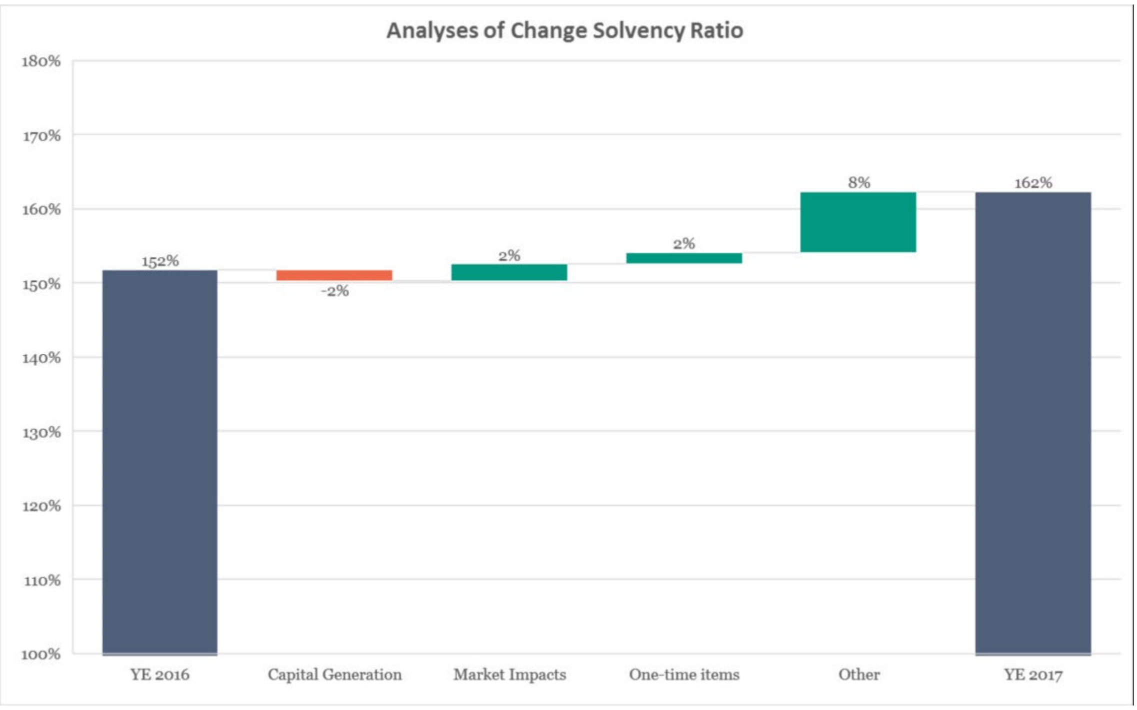


Figure 12: Analysis of Change Solvency Ratio VIVAT Schade

The Solvency II ratio of VIVAT Schade increased from 152% to 162%, The main drivers of this movement are:

Capital Generation (-/-2%)
Capital Generation was negative and had a negative impact on Solvency II ratio of -2%. Capital generation was negative due to a negative technical result partly offset by the expected asset return. The negative technical results of VIVAT Schade by P&C products are partly offset by the positive results on the disability portfolio.

Market Impacts (+/+2%)
The increase of the Solvency II ratio of 2% can be mainly explained by the (non-parallel) increase in the interest rates.

One-time Items (+/+2%)
A decrease of the counterparty default risk due to ending the security lending program is the main driver for the increase of the Solvency II ratio of 2%.

Other (+/+8%)
The increase in Solvency II ratio of 8% can be mainly explained by the parameter update for the disability portfolio resulting in lower disability rates and higher rehabilitation rates used for calculating the value of the liabilities, resulting in an increase of own funds.

7.5. Underwriting Risk

7.5.1. Risks - General

The underwriting risk is the risk that the own funds, earnings or solvency will be threatened as a result of the inability to make payments (either now or in the future) from premium and/or investment income owing to incorrect and/or incomplete assumptions (mortality, longevity, disability, claims, policy holders' behaviour, catastrophes, interest and expenses) used in the development of the product and the determination of its premium. The interest rate risk related to insurance products forms part of the market risk.

7.5.2. Risk Management Process

VIVAT Schade assesses new underwriting risks continuously and manages existing underwriting risks, for both new business and for the existing portfolio.

Operational Plan
Derived from the VIVAT Schade strategy, the Operational Plan (OP) describes the planned development of the insurance portfolio together with the related capital requirement for the next three years, based on expected new business and the existing portfolio. The OP sets out in broad terms whether VIVAT Schade wants to enter new markets, which forms of distribution will be used, whether new (forms of) insurance products will be devel- oped, and which products will be adjusted or terminated. It also lays down possible measures relating to acceptance and the mitigation of claims.

Product Development, Pricing and Acceptance

In accordance with the OP, new or adjusted products are developed which follow the Product Approval and Review Process (PARP). Starting from the customer's interests the target group, coverage and terms and conditions are determined. This is the basis for the best estimate risk premium, taking into account options and guarantees, capital requirements and the internal pricing curve. Furthermore, criteria related to profitability and risk control measures (acceptance criteria, clauses, any reinsurance) have to be met.

The Product Committee (PC), in which the Solvency II second line Key Functions are represented, is responsible for approval of new products, including the pricing. A selling product review is performed regularly, existing products follow a risk based product review calendar.

Technical Provisions

At the Non-Life Insurance businesses, all relevant information on portfolio and claims developments is used for the calculation of the Technical Provision and the SCR on a quarterly basis. A liability adequacy test on the (IFRS) premium and claims reserves is performed once every six months (at the Non-Life Insurance businesses), or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insight with respect to parameters are involved here. The Actuarial Function assesses the Solvency II Technical Provision and expresses an opinion on its reliability and adequacy at least once a year.

Parameter Study

For long-term policies (Disability) evaluation of the underwriting parameters (e.g. mortality, lapses, disability, recovery) takes place by a parameter study. The aim of this study is to value the existing insurance portfolio and set the cost price of new Disability insurance policies. For short-term policies the Non-Life under- writing parameters are evaluated every quarter, other parameters (like lapse) at least once a year. Thereby relevant information on portfolio developments is taken into account. At the Non-Life business, the tariff structure of each product is regularly assessed by means of analysis. Monitoring takes place on the basis of the combined ratio of each branch and distribution.

Portfolio Analysis

Portfolio analysis is aimed at optimising risks and returns within the risk policy structure. This can lead to new strategic insights in areas such as entering new markets or terminating products. The analysis is based on the impact of underwriting risks following from various measures: IFRS-based liability adequacy test (LAT), long term profitability, SCR and VNB. Based on the risk appetite, VIVAT Schade mitigates underwriting risks primarily by means of diversification and reinsurance.

7.5.3. Non-life

For the division of risks into sub-risks in the Non-life insurance portfolios, VIVAT makes a distinction between Health underwriting risk and Non-Life underwriting risk.

The emphasis of this portfolio is on three segments: Fire, Motor and Disability. The insurance policies are mostly sold through authorized agents and distribution partners to retail and SME customers. In addition, sales are also effected via direct channels. The disability insurance products in the portfolio include both individual coverage (for self-employed persons) and group coverage for employees. Only individual insurance contracts are currently sold.

The health underwriting risk module consists of the following three submodules:

- SCR for the Health Non-SLT underwriting risk
- SCR for the Health SLT risk
- SCR for the Health catastrophe risk

The Health catastrophe sub-module relates to all health insurance policies (i.e. both SLT and Non-SLT). In the following two subparagraphs the Non-Life underwriting risk and the health underwriting risks are assessed. In the third subparagraph the important role reinsurance has on the risk profile of VIVAT Schade is mentioned.

7.5.3.1. Disability

The classification of Life insurance risks also applies to these insurance policies, although the materiality of these risks is different. The Non-life insurer pays disability benefits that stem from the individual and group portfolios. The Life insurer pays disability benefits that relate to the cover that forms part of a Life insurance contract.

Disability risk, recovery risk and lapse risk

In the case of disability insurance, the main risks are the disability risk, recovery risk and lapse risk. The disability risk and recovery risk are risks that appear when a policyholder becomes unfit for work and receives benefits during the period this situation remains to exist. The risks relate to the amount, duration and timing of the payment of the insured cash flows. The disability risk is the risk that more policyholders than expected become disabled, or that policyholders become more severely disabled than expected. The recovery risk is the risk that fewer policyholders recover or that the policyholder recovers to a lesser extent than expected. The lapse risk is the risk associated with the consequences of cancelation by the policyholder before the envisioned end date of the policy.

VIVAT manages this risk by continuously monitoring the inflow, outflow and by promoting/offering reintegration pathways.

7.5.3.2. Property & Casualty

The risks of Property & Casualty (P&C) can be divided into risks related to claims, whether reported or not, that have already occurred (reserve risk), and risks related to future claims arising from current contracts (premium risk and catastrophe risk).

Reserve risk

Reserve risk is the risk that the accrued claims reserves are insufficient to settle all claims already incurred. VIVAT manages this risk by means of monitoring best estimate trends in the claims development based on claim year on a regular basis. VIVAT has assigned specialised departments for the handling and run-off of claims (including bodily injury claims). Experts in these departments handle claims on an item-by-item basis, make estimates of the size of the claim, and monitor the progress of claims settlement. The long-tailed claim areas at VIVAT are disability claims, bodily injury claims and liability claims.

A liability adequacy test on the (IFRS) premium and claims reserves is performed once every six months, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insights as to parameters are involved here.

For short-term policies (P&C), the Non-life underwriting parameters are evaluated every quarter, other parameters (like lapse) at least once a year. In these evaluations relevant information on portfolio developments is taken into account. The tariff structure of each product is regularly assessed by means of analysis. Monitoring takes place on the basis of the combined ratio of each branch and distribution channel.

Premium risk
Premium risk is the risk that premiums pertaining to future exposure are insufficient to meet all corresponding claims and costs. VIVAT manages this risk by means of the product development, pricing and acceptance procedures as described in Section 7.5.2, Risk Management Process.

Catastrophe risk
Catastrophe risk is the risk of losses due to extreme or exceptional events. This includes both natural disasters and events caused by human actions. Geographically, the risk in the Non-life portfolio of VIVAT is almost entirely concentrated in the Netherlands. There is concentration of underwriting risks in the Fire segment, where storm risk is an important factor. In addition, the concentration of risks can occur in apartment buildings, city blocks and office buildings. The concentration of risks also occurs in the group accident portfolio and the group disability schemes. VIVAT reinsures catastrophe risks due to perils of nature (such as storms) or terrorism. Catastrophes resulting from acts of violence, nuclear incidents or floods are excluded under the standard policy conditions. Through participation in the nuclear insurance pool and the environmental insurance pool, specifically insured risks are shared with other insurers.

Co-Insurance
VIVAT Schadeverzekeringen NV is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the Fire, Transport and Liability segments are underwritten. The focus is on the medium-sized and large business segments of the corporate insurance market.

7.5.3.3. Non-life Reinsurance

The use of reinsurance is an important role in managing the net risk profile of the Non-Life portfolio. The reinsurance program consists of reinsurance contracts per line of business and makes no specific distinction between the various distribution channels. In addition to the regular protection for the portfolios, VIVAT Schadeverzekeringen NV has concluded a catastrophe contract for covered natural perils (storm, hail) and the accumulation of losses due to one event (e.g. conflagration) within the fire portfolio.

The 2017 reinsurance program was largely a continuation of the program for 2016. From risk management and capital management considerations, the capacity of the catastrophe programme is aligned with the Risk Appetite of VIVAT.

Non-life insurance retention

In € thousands		2017	2016	2015
Coverage:				
Fire	per risk	2,000	2,000	1,000
Motor third-party liability	per risk	2,500	2,500	2,500
General liability	per risk	1,500	1,000	1,000
Accidents	per risk	750	750	750
Transport	per risk	1,000	1,000	1,000
Disability (risk capital)	per risk	1,500	1,500	1,500
Catastrophe	per event	20,000	20,000	25,000

The level of retention of the VIVAT Non-life reinsurance contracts is in line with the size of the underwriting portfolios and the principles of the Reinsurance Policy. The reinsurance programme consists of reinsurance contracts per line of business and makes no specific distinction between the various distribution channels.

7.5.3.4. Sensitivities and SCR Non-life

The own funds of P&C Insurance are sensitive to results in the Non-life claims, disability and loss ratio's. The impact of these results on the own funds of VIVAT is very limited. The IFRS net result sensitivity for an increase of claims of 10% is equal to the impact on IFRS shareholder equity and decreased from minus 32 million to minus 29 million.

Non-Life premium and reserve risk

The capital requirement for the premium and reserve underwriting risk is dependent on the standard deviation and volume of the premiums and outstanding reserves.

Non-Life Lapse risk

The capital requirement for the lapse risk is equal to the loss in basic own funds as a consequence of an instantaneous discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of the best estimate provision. Compared to premium & reserve risk and the catastrophe risk this risk is limited.

Non-Life catastrophe risk

In calculating the SCR for the Non-Life portfolio the following main drivers are identified: premium & reserve risk, cat risk and lapse risk. Due to risk diversification between the risks the total risk is less than the aggregated results and thus a diversification effect originates. In the following table the net SCR outcome for each risk is given.

SCR underwriting risk Non-Life

In € millions	2017	2016
Non-Life premium and reserve risk	183	190
Non-Life lapse risk	4	4
Non-Life catastrophe risk	63	63
Diversification	-42	-42
SCR Non-Life underwriting risk	**208**	**215**

The movement in the SCR underwriting risk is limited and can be explained by regular portfolio development.

7.5.3.5. Sensitivities and SCR Health

The health underwriting risk relates to occupational disability policies and the casualty, sickness benefits and pet care portfolio. As the risk profiles of these insurance policies differ, a distinction is made in risks between:

- health insurance policies which provide for long-term benefits and thus resemble Life policies (Health SLT);
- health insurance policies which provide for short-term benefits and thus resemble Non-Life insurance (Health Non-SLT);
- risks relating to a mass accident, an accident concentration risk and a pandemic. This results in a third main risk module within Health and is the Health catastrophe risk (Health Cat).

SLT Mortality risk

This risk applies to the Health SLT active portfolio for which mortality rates may have a negative impact on the best estimate. For the Health SLT Inactive portfolio a shorter life will mean less future payments. The impact is marginal because the end date of the contract limits the mortality risk.

SLT Longevity risk

This risk only applies to Health SLT Inactive portfolio. The impact is marginal because the end date of the contract limits the longevity risk.

SLT Disability-morbidity risk

The capital requirement for morbidity risk (or incapacity for work risk) is equal to the loss in basic own funds that would result from the following combination of instantaneous permanent changes:

- an increase of 35% in the disability rates which are used in the calculation of technical provisions in the following 12 months;
- an increase of 25% in the disability rates which are used in the calculation of technical provisions in all months thereafter;
- a decrease of 20% in the rehabilitation rates for the calculation of the technical provision for all years.

The shock on disability applies to both the first year as well as risk after the first year and has major impact on both the Health SLT active portfolio as well as the Health SLT inactive portfolio. The parameters in the shock are at the core of the product and given the duration of the controls the impact of this shock is very significant in the Non-Life portfolio.

SLT Lapse risk

The high exposure to lapse is mostly driven by the expected future profits contained in the disability portfolio. The lapse risk is based on a formula of different type of shocks (see Life portfolio). The impact is mainly seen at the health SLT active portfolio. There is a (marginal) impact on the inactive portfolio, because disabled policy holders can rehabilitate.

SLT Expense risk

The impact of the expense risk shock is relatively limited for the disability portfolio.

SLT Revision risk

The capital requirement for revision risk is equal to the loss in basic own funds that would result from an instantaneous permanent increase of 4% in the amount of annuity benefits only on annuity insurance and reinsurance obligations where the benefits payable under the underlying policies could increase as a result of changes in the legal environment or in the state of health of the insured person. Due to the fact that disability claims are paid out in the form of an annuity, there is a sensitivity to this shock. However, it is limited.

The health SLT underwriting risk applies to occupational disability policies. Virtually the same sub-modules as defined for the Life underwriting risk apply to the SLT health underwriting risk. Also virtually the same are the extent of shocks and the correlation assumptions between the shocks.

SCR Health SLT underwriting risk

In € millions	2017	2016
SLT Longevity risk	3	4
SLT Disability-morbidity risk	233	245
SLT Lapse risk	79	77
SLT Expense risk	22	20
SLT Revision risk	15	16
Diversification	-90	-91
SCR Health SLT underwriting risk	**262**	**271**

The parameter update for the disability portfolio resulted in lower disability rates and higher rehabilitation rates used for calculating the value of the liabilities, resulting in a lower disability-morbidity risk and a lower SCR.

SCR Health underwriting risk

In € millions	2017	2016
SCR Health SLT underwriting risk	**262**	**271**
Non-SLT premium reserve risk	15	14
Non-SLT lapse risk	3	3
Diversification	-3	-3
SCR Health Non-SLT underwriting risk	**15**	**14**
Health catastrophe risk	3	3
Diversification	-9	-9
Total health underwriting risk	**271**	**279**

Non-SLT SCR

Due to the limited size of the portfolio, the sensitivity is limited.

7.6. Market Risk

7.6.1. Risks - General

Market risks can potentially have a substantial financial impact on the value of the assets and liabilities of the insurance business. Unfavourable changes in market conditions have an impact on VIVAT Schade's earnings and/or own funds. To manage the mismatch between the assets and liabilities an ALM (Asset and Liability Management)-framework is in place. This framework is designed to bring about an investment strategy that optimizes the relationship between risks and returns. The framework also ensures that VIVAT Schade's operations remain within the boundaries of its risk appetite.

The market risk is the risk arising from the level or volatility of market prices of financial instruments which have an impact of the value of the assets and liabilities of VIVAT Schade. The ALM-framework aims to properly reflect the structural mismatch between assets and liabilities, with respect to the duration thereof.

The following eight sub-market risks have been defined: interest rate risk, equity risk, property risk, spread risk, basis risk, market risk concentrations, currency risk and volatility risk. VIVAT Schade can achieve its financial objectives by managing these risks adequately. It does this by reducing losses due to movements in the level and/or volatility of market prices of financial assets.

VIVAT Schade monitors and mitigates market risk in close cooperation with ACTIAM, the asset manager of VIVAT. For mitigation, instruments such as interest rate swaps and fixed income investments are used.

7.6.2. Risk Management Process ALM

The ALM-policy covers the management of market risk, counterparty default risk and liquidity risk.

The starting point for the ALM policy is the ALM study, which is drawn up annually. The ALM study seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, and laws and regulations. This ALM study is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM, taking into account the risk limits based on the Risk Appetite Statements (RAS), solvency ratio, the tax position and the long-term risk exposure. In order to spread the risk, the risk is spread across a range of risk drivers, asset classes and sectors. When finalising the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. All investments are monitored by means of reports on performance and capital.

Investments are made in accordance with the prudent person principle and in the interest of the policyholders. The prudent person principle forms part of the ALM policy. Investments are made exclusively in assets and instruments which risks are properly identified, measured, monitored, managed, controlled and reported.

Sensitivity analyses and stress tests

Stress tests provide information on how sensitive investments and liabilities are to interest rate risk and other market risk. These risks are quantified (and monitored) on a regular basis.

For interest rate risk several parallel and non-parallel shocks are defined. For market risk a number of combined scenarios is determined with (different) simultaneous shocks to the various sub-market risks.

These market risk scenarios are monitored and reported on a regular basis, and if deemed necessary adjustments are made to existing risk exposures based on overlay hedging tools. This evaluation is supported by metrics for yield curve risk and non-linear interest rate risk. In this manner, VIVAT Schade manages market risk from a holistic balance sheet perspective.

This approach reflects the sensitivity of the entire statement of financial position (of fixed cash flows, options, risk margin and required capital) drawn up on a Solvency II basis.

7.6.3. SCR Market Risk

Exposure to market risk is measured under the Solvency II regime using adverse movements in financial variables. The main driver of market risk is the Solvency Capital Requirement for spread risk and to lesser extent the Solvency Capital Requirements for equity and interest rate risk.

The relevant types of market risk in Solvency II are displayed in the table below:

SCR Market risk

In € millions	2017	2016
Interest rate risk	12	15
Equity risk	12	10
Spread risk	17	22
Concentration risk	-	1
Currency risk	-	1
Diversification	-12	-16
SCR market risk	**29**	**33**

Market risk is very limited compared to the Non-life and Health risk. The development of the SCR market risk is mainly due to normal market and portfolio developments.

7.6.3.1. Interest Rate Risk

Interest rate risk is a key component of VIVAT Schade's market risk profile. Interest rate risk arises when the interest rate sensitivities of the assets and liabilities are not equal and it is expressed as movements in the capital position if market rates change. Moreover, the expected fixed cash flows from technical provisions are matched with fixed-income investments as much as possible.

VIVAT Schade uses a scenario based approach to control the sensitivity of solvency to market conditions, such as interest rates and spreads. The key solvency metric to express the risk is based on the regulatory solvency reported to the Dutch Central Bank (DNB). This method is chosen because VIVAT Schade has decided to use regulatory solvency as the principle factor in managing market risks.

From this perspective also the UFR of 4.2% prescribed by EIOPA introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year. This will have a negative impact on solvency.

The tables below show the sensitivity of the IFRS result, IFRS equity and Solvency II ratio to changes in interest rates as a result of a decrease or an increase by 0.5% of the interest rates (maintaining the UFR at 4.2%), decreases in the UFR of 0.15% and 0.5% and the impact of the VA on the Solvency II ratio.

Under IFRS the impact of different UFR is slightly different than under Solvency II due to tiering and the VA (not applicable under IFRS).

Sensitivity

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2017	2016	**2017**	2016	**2017**	2016
Interest +50 bps	-3	-	-3	-	5%	6%
Interest -50 bps	3	-	3	-	-6%	-7%
UFR -15 bps	-	-	-	-	-1%	0%
UFR -50 bps	-1	-	-1	-	-1%	0%
Excluding VA	-	-	-	-	-1%	-3%

Nominal Insurance Liabilities by buckets

The table below presents nominal cash flows arising from insurance liabilities, net of reinsurance (liabilities) by maturity segment.

Cash flows from insurance business 2017

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	122,368	380,296	158,270	111,160	83,956	93,041	**949,091**
Total	**122,368**	**380,296**	**158,270**	**111,160**	**83,956**	**93,041**	**949,091**

Cash flows from insurance business 2016

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	130,934	339,606	159,467	122,269	91,257	93,636	**937,169**
Total	**130,934**	**339,606**	**159,467**	**122,269**	**91,257**	**93,636**	**937,169**

The cash flows from the underwriting provisions concern cash flows with a nominal guarantee. This does not include cash flows driven by the risk margin. The cash flows arising from the underwriting provisions are estimated on a best estimate basis. Assumptions are made of disability, surrender and costs. A change in assumptions can alter the view of the cash flows in the table. The cash flow projections do not include future profit-sharing.

VIVAT Schade's interest rate hedging policy aims to ensure that obligations towards policyholders are fulfilled in both the short term and the long term. In addition, it aims to enable its providers of capital to receive a reasonable return (in terms of market value) that is in line with VIVAT Schade's risk exposure and to stabilise the solvency capital. VIVAT Schade manages its interest rate risk by stabilising the Solvency II ratio after an up or down interest rate shock, taking the UFR of 4.2% into account. This generally results in a negative own funds impact for interest rate up movements and a positive own funds impact for interest down movements.

The capital requirement for interest rate risk is determined on the basis of two scenarios in which the risk free yield curve is exposed to shocks affecting both assets and liabilities. The first scenario is 'interest rate up' and the second 'interest rate down'. The capital requirement for interest rate risk is defined by the scenario which has the most negative impact on basic own funds. The sign of the SCR interest rate shock (up or down) has to be determined based on the net SCR interest rate risk in accordance with SII legislation. However, the gross SCR interest rate risk determines the size of SCR interest rate risk. The interest rate scenario used for the up and down Solvency II shocks are prescribed; being in effect a parallel up shock of

100 bps and a non-parallel down shock increasing from 0 to minus 71 bps, both without re-applying the UFR. For VIVAT Schade the up shock is leading.

SCR Interest rate risk

In € millions	2017[1]	2016
SCR interest up shock	-12	-15
SCR interest down shock	-	-
SCR interest rate risk	**12**	**15**

[1] Positive own funds impacts are set to zero

The SCR for interest rate risk for VIVAT Schade mainly changed due to market and portfolio developments.

7.6.3.2. Equity Risk

The IFRS-based equities classification also includes participations in funds that invest in other types of securities like money market funds and other (non-investment grade) fixed income funds. The ALM policy and the market sensitivities are adjusted to reflect the underlying risk under Solvency II and IFRS for a more economic approach (“look through”), including the impact of the shock on the liabilities. VIVAT Schade periodically examines the impact of changes in the equity markets on the result and on own funds. Scenario analysis are used for this purpose, in line with the situation applying in the case of interest rate risk.

The tables below show the results of this analysis at the reporting date net of taxation. Upward effects on equity are processed in the revaluation reserve and do not impact earnings. A downward effect on equity does impact the net result in case of an impairment (for the accounting policies on impairments see Section 6.1.5 in the Annual Report for Accounting policies regarding the statement of financial position).

Sensitivity

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2017	2016	**2017**	2016	**2017**	2016
Equities +10%	-	-	3	3	1%	1%
Equities -10%	-	-	-3	-3	-1%	-1%

The SCR for equity risk is equal to the loss in market value of the basic own funds in the event of a sudden shock to equities including a so-called symmetric adjustment. This adjustment corrects the equity shock for the difference between the current level of global equity prices and a long-term average and can vary between a minus 10% adjustment and a plus 10% adjustment.

SCR for equity risk consists of type 1 and type 2 equities. Type 1 equities are equities listed in regulated markets which are members of the EEA or OECD. Type 2 equities are equities listed in countries other than members of the EEA and/or OECD, non-listed equities, private equities, hedge funds, commodities and other alternative investments.

The SCR for equity risk is defined as the aggregation of the capital requirement for type 1 equities and the capital requirement for type 2 equities, allowing a correlation of 0.75 between types 1 and 2.

A transitional arrangement can be applied to type 1 equities in order to reduce the standard capital charge. VIVAT Schade does not apply this transitional arrangement.

The table below shows the SCR for equity risk.

SCR Equity risk

In € millions	2017	2016
Type 1 equities	1	-
Type 2 equities	11	10
Diversification	-	-
Equity risk	**12**	**10**

7.6.3.3. Spread Risk

Spread risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of the credit spread above the risk-free interest rate term structure. The spread risk for the insurance business arises in the fixed-income investment portfolio, which includes securitzations, loans, corporate and government bonds that are sensitive to changes in credit risk surcharges. Increasing credit risk surcharges have a negative effect on the market value of underlying bonds.

Credit risk surcharges are also a source of basis risk in the valuation of insurance liabilities. The basis risk relates to the risk of a mismatch between the interest rate used in the valuation of the liabilities and the interest rate used for the asset portfolio. This basis risk mainly emanates from the risk that movements in the interest rate on the EU government bonds held in portfolio will not be in line with movements in the swap rate.

The swap curve (including UFR) is currently used when discounting insurance liabilities under IFRS. A change in the swap curve has a direct impact on the value of the insurance liabilities. This leads to volatility in the available capital, as the interest rate used for the valuation of the investment portfolio differs from the relevant swap curve for the insurance liabilities.

Under the Solvency II regime the swap curve with a prescribed Ultimate Forward Rate (UFR) is used when discounting insurance liabilities, adjusted for credit risk (CRA) and a Volatility Adjustment (VA). The VA moves along with the credit spreads, but still substantial basis risk exists because the VA is based on a reference portfolio instead of VIVAT Schade's own asset portfolio, and also a 65% scaling factor is applied to deter-mine the VA. For managing market risks a number of combined scenarios is determined with (different) simultaneous shocks to risk categories. In this scenario based approach among others credit spreads, volatility (interest rate volatility and equity volatility) and best estimates for the VA are taken into account.

While interest rate risk regarding the Solvency II ratio sheet is well matched, there remains significant volatility as the credit risk profile of VIVAT Schade differs from the profile implied by the Volatility Adjustment (VA). The basis risk was further mitigated during 2017 by replacing long German and Dutch government bonds by swaps combined with short government bonds. The basis risk is still material, in case of higher rates (spreads) for bonds, IFRS equity is affected.

An increase of credit spreads will directly have a negative short-term effect on IFRS equity and net result, in the long run, spreads are expected to be realised, mitigating this short term negative effect. Under Solvency II an increase of credit spreads also leads to an increase of the Volatility Adjustment impacting the value of the liabilities. VIVAT Schade assumes that an increase of all credit spreads of 50 bps leads to an increase of the VA of 23 bps, an increase of 50 bps on corporates to an increase of the VA of 14 bps and an increase of 50 bps on government bonds to an increase of the VA of 9 bps. The change of the VA has no impact on the value of the liabilities under IFRS.

Sensitivity

In € millions	IFRS net result		IFRS Shareholders' equity		Solvency II ratio	
	2017	2016	**2017**	2016	**2017**	2016
Credit spreads Government Bonds +50 bps	-10	-18	-10	-18	-2%	-4%
Credit spreads Corporates/Mortgages +50 bps	-2	-4	-2	-4	1%	0%
All Credit spreads +50 bps	-13	-22	-13	-22	-1%	-4%

Credit spread sensitivity decreased over 2017.

Solvency Capital Requirement for spread risk

The SCR for spread risk is determined by calculating the impact on the eligible own funds due to the volatility of credit spreads over the term structure of the risk-free rate. The required capital for spread risk is equal to the sum of the capital requirements for bonds, loans and structured products. The capital requirement takes into account the market value, the modified duration and the credit quality category.

SCR Spread risk

In € millions	2017	2016
Bonds and loans	16	21
Securitisation positions	1	1
Spread risk	**17**	**22**

The SCR for spread risk of VIVAT Schade decreased mainly due to normal market and portfolio developments. European sovereigns and sub-sovereigns are excluded from spread risk.

7.6.3.4. Concentration Risk

Concentration risk is defined as all risk exposures associated with a potential loss that is significant to endanger the solvency or financial position of insurance and reinsurance undertakings.

A concentration risk charge is prescribed under Solvency II when the issuer exposure exceeds a certain percentage threshold of the asset base depending on the credit rating of the issuer and the type of investment. The SCR for concentration risk is calculated on the basis of single name exposure. This means that undertakings which belong to the same corporate Group are treated as a single name exposure.

VIVAT Schade still hold substantial investments in German and Dutch government bonds and supranational issuers which are excluded from (the Solvency II scope of) concentration risk.

7.6.3.5. Currency Risk

Currency risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of exchange rates. The currency risk of VIVAT Schade is very limited.

With respect to fixed-income investments, VIVAT Schade's policy is to permit only a very limited currency risk. Given this, the currency risk on fixed-income investments denominated in foreign currency is, in principle, hedged with currency swaps.

Currency risk also arises in relation to the equity investments of VIVAT Schade. This currency risk, after netting the currency risk in other non-fixed-income investments and liabilities, is structurally hedged using forward currency contracts or currency swaps if the net exposure without applying look through principle exceeds € 10 million.

The SCR for currency risk is equal to the loss in the basic own funds that would result from an instantaneous change in the value of the foreign currency against the local currency. For each foreign currency this involves taking the maximum of the impact on the basic own funds of a 25% increase or 25% decrease in the value of the currency. The total SCR for currency risk is then obtained by the sum of the ‘individual’ currencies.

SCR Currency risk

In € millions	2017	2016
Currency risk VIVAT Schade	-	1

7.6.3.6. Diversification

Not all risks will materialise at the same time and at their full magnitude, resulting in diversification between different risk types. Solvency II prescribes a correlation matrix for the diversification effect in the SCR Market Risk module in order to aggregate the results of the types of market risks. This leads to a lower amount of total Market Risk compared to the sum of the individual market risk types. Solvency II furthermore prescribes that a downward SCR interest rate shock will be more correlated with an equity, spread and property shock compared to an upward interest rate shock.

At 31 December 2017, VIVAT Schade had a net balance sheet exposure to an upward interest rate shock.

7.7. Counterparty Default Risk

7.7.1. Risks - General

VIVAT Schade defines counterparty default risk as the risk of potential losses due to an unexpected payment default of the counterparties and debtors of insurance and reinsurance undertakings within the next twelve months.

The SCR Counterparty Default Risk covers risk-mitigating contracts, such as reinsurance arrangements, derivatives and receivables from intermediaries, as well as any other credit exposures not covered by the definition of SCR Spread Risk.

For each counterparty, the overall credit default risk exposure of the insurance or reinsurance undertaking concerned to that counterparty is measured, irrespective of the legal form of its contractual obligations to that undertaking. Its calculation also takes into account collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith.

Besides the calculation of SCR Counterparty Default Risk, VIVAT, including VIVAT Schade has developed a complementary Counterparty Risk Policy for internal use. This risk is measured as Loss At Default (LAD) and Stress Loss (SL) and combines instruments/exposures that are in scope for both SCR Concentration Risk and SCR Counterparty Default Risk. Appropriate internal LAD and SL limits have been incorporated in the ALM policy and must be adhered to.

VIVAT Schade uses this methodology to aggregate and monitor all types of exposures to various types of individual counterparties, such as (sub)sovereigns, financials and corporates. The periodic Counterparty Risk reports are discussed by the Investment Committee, and appropriate measures are taken when limits are exceeded.

7.7.2. Risk Management Process

The VIVAT Schade manages and verifies counterparty default risk within the set frameworks. Investments may be sold when deemed necessary, risk mitigating contracts or clauses are drawn up in cooperation with ACTIAM and Legal Affairs. The counterparty default risk at VIVAT Schade is measured by means of measuring the exposure to individual parties and, as the case may be, aggregating exposures with similar characteristics.

For each type of credit risk, the roles, powers and responsibilities of officers and committees, including tiered decision-making powers, are recorded in the policy documents for the relevant type of credit risk.

Fixed-income investment portfolio

The counterparty default risk within the interest-bearing investment portfolios of VIVAT Schade is the risk that an issuer of a bond or a debtor of a private loan does no longer meet its obligations. The strategic allocation along the various investment grade categories within the interest-bearing portfolio is determined in the context of ALM and laid down in mandates with the asset managers.

Derivatives exposure

The counterparty default risk related to the market value of the derivatives held by VIVAT Schade with a counterparty is managed by means of a Credit Support Annex (CSA) agreement in accordance with standard industry practice. These agreements provide that the underlying value of the derivatives must be posted as collateral in liquid instruments, such as cash and government bonds, to cover the counterparty default risk.

Reinsurance

VIVAT Schade pursues an active policy with respect to the placement of reinsurance contracts, using a panel consisting of reinsurers with solid ratings. The general policy is that reinsurers should have a minimum rating of A-. However, given the long-term nature of the underlying business, the current casualty panel consists of reinsurers with at least an A- rating, while the panel for disability reinsurance contracts consists of reinsurers with at least an AA- rating. Continuity and diversification within the panels of reinsurers is an important principle.

7.7.3. SCR Counterparty Default Risk

The counterparty default risk module reflects the possible loss as a consequence of bankruptcies or a reduction in the credit standing of counterparties over a 12-month period. The SCR for the counterparty default risk is determined by aggregating the capital requirements related to type 1 and type 2 exposures.

Counterparty default risk

In € millions	2017	2016
Type 1 exposures	5	9
Type 2 exposures	4	5
Diversification	-	-1
SCR counterparty default risk	**9**	**13**

In 2017 Counterparty Default Risk decreased mainly due to ending the security lending program.

Type 1 exposures are exposures that are expected to involve low diversification effects and for which the counterparty is likely to have an external rating. Solvency II treats the following as type 1 exposures:
- risk-mitigation contracts, including reinsurance arrangements, special purpose vehicles (SPVs), insurance securitisations and derivatives;
- cash at bank;
- deposits with ceding undertakings;
- commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid;
- legally binding commitments which the insurer has provided or arranged and which may create payment obligations depending on the credit standing of a counterparty.

The capital requirement for counterparty default risk on type 1 exposures is a percentage of the total losses given-default on all type 1 exposures, the percentage is dependent on the variance between the type 1 exposures, the higher the variance the lower the percentage.

The loss-given default (LGD) on a single-name exposure is equal to the sum of the LGDs on each of the underlying exposures to counterparties belonging to the relevant single-name exposure.

Type 2 exposures consist of all exposures to which the capital requirement for spread risk is not applicable and which are not of type 1. In general, these are diversified exposures which do not have an external rating. Solvency II explicitly mentions the following exposures in the context of type 2:
- receivables from intermediaries;
- policyholder debtors.

The capital requirement for credit risk on type 2 exposures is equal to the loss in the basic own fund as defined by EIOPA.

Diversification

Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types.

7.8. Liquidity Risk

7.8.1. Risks - General

Liquidity risk is defined as the risk that VIVAT Schade would have insufficient liquid assets to meet its financial liabilities in the short term, in a going concern situation or in times of a stress situation, or if obtaining the necessary liquidity would mean incurring unacceptable costs or losses.

The liquidity risk is monitored and managed both at consolidated level and at legal entity level.

7.8.2. Risk Management Process

The policy of VIVAT Schade is to have more liquidity available than it is required to hold based on internal risk management minimum levels. The objective of the internal risk management minimum levels is to ensure that VIVAT Schade is able to fulfill its obligations towards policyholders and all legal obligations.

The liquidity risk policy uses three sources of liquidity:
1. the cash position
2. the liquidity buffer
3. the liquidity contingency policy.

Cash position

The first source of liquidity concerns the cash position. This position is built up from the cash management process from investments (managed by ACTIAM) and cash management process from underwriting and operating activities. In the investments cash management process all cash flows from investments are managed by our Asset Manager (ACTIAM).

VIVAT Schade has taken into account that all obligations to policyholders must be respected and that these obligations will be paid throughout the underwriting and other operating cash management process. If at any time these obligations exceed the premium income additional cash will be transferred from the investment cash management process. Otherwise, when premiums exceed the payments in the operational cash management process, cash will be transferred to the investments cash management process, for the purpose of the investing excess cash (temporarily).

Liquidity buffer

The second source is the liquidity buffer. Together with the cash position, the liquidity buffer forms the overall liquidity position of the entity. The liquidity buffer is a good indicator for the overall liquidity position of VIVAT Schade and takes into account all available assets and the impact of prescribed shocks in a stress situation. Monitoring of this buffer accounts for an important part of the daily activities of VIVAT Schade.

Liquidity contingency policy

The last source of liquidity relates to a situation in which the normal liquidity and buffers turn out to be insufficient. In case of such a contingency, VIVAT Schade has implemented a Crisis Management Team (CMT) structure and a predefined set of potential management actions. The CMT must take timely action in rapidly deteriorating liquidity circumstances in order to avoid a bankruptcy that could occur in the worst case and/or to settle all of the obligations under the insurance portfolio in an orderly manner.

7.8.3. Exposure

The required liquidity is determined based on absorbing shocks in a stress situation. The shocks are applied on prescribed risk categories. These risk categories are storm-/hail damage (Non-life insurance) and interest rate movements. In total, the liquidity buffer is sufficient to cover a severe liquidity stress scenario.

7.8.4. Maturity schedule for financial liabilities

The table below shows the undiscounted cash flows from the principal financial liabilities, other than derivatives and liabilities from investments for account of third parties, by contract maturity date.

Liquidity calendar financial liabilities 2017

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	–	–	–	–	-150,000	**-150,000**
Amounts due to reinsurers	–	–	–	–	-20,781	**-20,781**
Amounts due to banks	-15,667	–	–	–	–	**-15,667**
Total	**-15,667**	**-**	**-**	**-**	**-170,781**	**-186,448**

Liquidity calendar financial liabilities 2016

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	–	–	–	–	-150,000	**-150,000**
Amounts due to reinsurers	–	–	–	–	-22,968	**-22,968**
Amounts due to banks	-22,309	–	–	–	–	**-22,309**
Total	**-22,309**	**-**	**-**	**-**	**-172,968**	**-195,277**

The table below shows the undiscounted cash flows from all derivative contracts by maturity date.

Liquidity calendar derivatives 2017

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	–	–	–	-7,803	–	**-7,803**
Total	**-**	**-**	**-**	**-7,803**	**-**	**-7,803**

Liquidity calendar derivatives 2016

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	–	–	–	-10,321	–	**-10,321**
Total	**-**	**-**	**-**	**-10,321**	**-**	**-10,321**

The table regarding the cash flows from insurance business can be found in chapter 7.6.3.1.

7.9. Non-financial Risk

7.9.1. Risks - General

The Non-Financial Risk department (NFR), which is part of the Risk department resorting under the CRO, monitors and provides advice to management on compliancy risk and operational risk.

Compliance risk

Compliance risk is the risk that an organisation could suffer legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with laws, regulations, rules, self-regulatory standards, codes and unwritten rules that apply to its activities.

Non-compliance with integrity- and conduct related rules can lead to regulatory action, financial loss or damage to the reputation of VIVAT Schade, for example fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope consist among others of those laws and regulations under which the supervisory authorities (Authority for the Financial Markets (AFM), Dutch Central bank (DNB), Authority for Consumers and Markets (ACM) and Data Protection Authority (AP) supervise aspects related to non-financial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational risk

Operational Risk is the risk of unexpected direct or indirect losses due to inadequate or failed internal processes and systems, caused by inadequate setup or actions being taken, (deliberate) human error or external events. Operational Risk is overarching in nature and linked to all of VIVAT's activities. VIVAT recognises the following types of operational risk: Customer, Products and Business Conduct risk, Execution & Process Control risk, Model risk, IT risk, Fraud risk, Damage to physical assets risk and Staff & security risk.

7.9.2. Risk Management Process

In managing non-financial risks VIVAT Schade follows the risk management process as set out in Section 7.3.

Risk identification

VIVAT Schade systematically analyses Compliance and Operational Risks based on risk assessment and risk analysis, and gives insights to and reports on them.

Risk measurement

In addition VIVAT Schade initiates integrity-investigations, risk self-assessments and incident analysis. In cooperation with the business, NFR measures the level of risk maturity of the first line management of Non-Financial Risk by assessing the structure and effectiveness of management and process controls.

Risk mitigation

NFR supports and challenges the first line in the recognition and mitigation of Non-Financial Risks. For this, it carries out research, monitors control measures and informs management. This includes an integrated incident overview, the Non-Financial Risk Appetite KRI scores, and the effectiveness of management and process controls to draw attention to relevant issues in the field of internal control. NFR facilitates the business in training & awareness on Compliance and Operational Risks.

Risk monitoring and reporting

NFR is represented in the Risk Committee of the Supervisory Board, the VRC, the PC and in the ORC's and PMP's of the MTs (see Section 7.2.5 Risk Organisation) of VIVAT. NFR monitors the progress of the implementation of laws and regulations and also on design, existence and operational effectives of the first line responsibility to implement laws and regulations. Within the PMP MTs NFR advices on the development, evaluation and approval of products in accordance with laws, regulations, the AFM criteria and criteria related to treating customers fairly.

In line with the VRC frequency NFR draws up a Non-Financial Risk report, which provides a comprehensive overview of the major Non-Financial Risks and incidents within VIVAT, including VIVAT Schade. The Non-Financial Risk report is combined with the Financial Risk, Model Risk and Actuarial Function reports into the Enterprise Risk Management Key Take Aways.

7.9.3. Developments

In 2017 VIVAT Schade has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. The continued focus on cost reduction and revenue models could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT Schade risk framework to maintain a sound and controlled organisation.

7.9.4. Exposure to Non-financial Risks

During 2017 VIVAT Schade finalised implementation of the Integrated Control Framework consisting of process and management controls. This enables the organisation to manage and monitor Compliance and Operational Risks in an efficient and effective manner. In this paragraph the main developments and risks are described. VIVAT Schade's management is of the opinion that action plans and programs are in place to sufficiently address and mitigate these risks.

Compliance Risk

Risks (including reputational risk) are still evident in the non-accruing investment-linked policy file, owing to the combined effects of continuing media exposure, political opinion, court judgements, inaction on the part of customers, required recording and activation efforts and approaching deadlines. VIVAT Schade still has some repair activities scheduled and expects to achieve, in line with instructions from the AFM, the set target dates for activation.

Owing to the great complexity of the legislation concerning Solvency II, IFRS, GDPR, ILM, IDD, PRIIPS and Supply Chain Responsibility, changes to the pension legislation (Witteveen, net graduated scale), legislation may not be implemented in good time as a result of which VIVAT would not be compliant and would inter alia suffer reputational damage as a result.

Due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation)privacy risks should be taken into account. Special precautions are in order to avoid data breaches when personal data is transferred to third parties, especially to parties in countries outside the EU that do not provide an adequate level of protection. Therefore ITC has set up a broad privacy programme in order to pay full attention to VIVAT Schade's compliancy with the privacy regulation.

Operational Risk

Execution and process control risk

After the impactful reorganisation of 2016, including organisational changes and experienced staff leaving, there was an increased risk of operational incidents occurring in 2017. Although the number of incidents increased, the overall impact remained on the same scale as in 2016 and all incidents were addressed.

Process Key Control testing was transferred from the ICF program to the business, enhancing the control environment. Key Control testing, retesting by second line Risk and reporting on Key Control results is now supported by tooling in which the Management Key Controls are also incorporated.

A focused approach contributed to lowering the number of high risk issues reported in the Non-Financial Risk report. Nonetheless the remaining high risks, especially GDPR and Unit Linked Policies are receiving VIVAT Schade's continued attention so they will be solved in 2018.

Model risk

In 2017 VIVAT Schade has further reduced its number of models, as part of a strategic program that aims to rationalise the model landscape. This leads to reduction of model risk and contributes to a more efficient and reliable valuation of underwriting and market risks and the determination of the solvency ratio. By following a risk based model validation calendar, the validation of models in several segments confirmed that model improvements led to further reduction of model risk. Uncertainty resulting from remaining conversion projects has been mitigated by continuous monitoring, applying workarounds and a process for early provisioning in the accounts.

Information Technology risk

In order to realise more efficiency, VIVAT (including VIVAT Schade) defined the IT landscape and non-target systems are made redundant. This rationalisation will continue in 2018. Besides, the IT focus is on innovations like new and modern apps. The IT organisation has implemented the Agile way of working and Continuous Delivery, to improve on efficiency and to decrease time-to-market. The first synergy benefits of the IT cooperation of VIVAT with the other European Anbang companies like Fidea and Nagelmackers have been achieved. VIVAT is aware that these developments require high standards of change management within the IT department to maintain an IT landscape that is in control and is managing IT risks.

VIVAT Schade is aware of the increasing strategic importance of collecting, managing and use of data, taking into account relevant legislation, e.g. GDPR. VIVAT is currently implementing a sustainable design for Data Governance to manage and monitor the diverse data related initiatives.

Outsourcing / Cloud computing

VIVAT Schade is shifting away from handling IT matters itself in favour of outsourcing in areas of the consumer value chain where VIVAT Schade is less distinctive. VIVAT Schade assesses how the required functionalities in that value chain can be purchased or outsourced as components. VIVAT Schade performs risk assessments for new outsourcing initiatives, the results of which are reflected in the contracts with outsourcing partners. A good supplier management is set up to in order to maintain the desired level of control over outsourcing.

Cybercrime risk
Fighting cybercrime is a key priority for a financial organisation like VIVAT. Cyber criminals are always trying to compromise financial companies, for example with ransomware. In 2017 no major incidents related to cybercrime occurred within VIVAT Schade. Cybercrime will remain high on the agenda of the VIVAT Schade's management. Appropriate organisational and technological measures have been taken in order to be able to tackle the cybercrime risks, like the cooperation with the National Cyber Security Center and other major Dutch insurance companies. Also in 2018 new measures will be implemented to stay in control over the cybercrime risk.

Staff and security risk
After the organisational changes and relatively high staff turnover in 2016, VIVAT Schade still has been well aware of the associated risks (such as sick leave) and has continued the closely monitoring in 2017.

7.9.5. SCR Operational Risk

Operational risk is the risk of losses caused by weak or failing internal procedures, weaknesses in the action taken by personnel, weaknesses in systems or because of external events. This takes into account legal risks, but risks that are a consequence of strategic decisions or reputational risks are disregarded. The technical provision for own risk is part of the calculation of the SCR operational risk.

The basic capital requirement for operational risk is calculated by taking the maximum of (a) the capital requirement for operational risks on the basis of earned premiums and (b) the capital requirement for operational risks on the basis of technical provisions and adding 25% of the expenses incurred in respect of unit linked business.

SCR Operational risk

In € millions	2017	2016
VIVAT Schade	21	23

The SCR operational risk increased due to the reclassification of Unit Linked policies with guarantees. These policies are now taken into account similar to traditional products.

8. Company Financial Statements

8.1. Company Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2017	31 December 2016	1 January 2016
> Assets				
Intangible assets		1,044	3,648	20,750
Subsidiaries	1	4,110	1,153	1,153
Investments in associates		-	6,886	6,501
Investments		1,567,226	1,635,537	1,614,618
Derivatives		18,511	30,292	9,254
Reinsurance contracts		89,965	119,053	114,909
Corporate income tax		9,165	17,723	26,401
Assets held for sale		7,335	-	-
Other assets		70,115	48,672	39,347
Cash and cash equivalents		43,127	53,043	60,517
Total assets		**1,810,598**	**1,916,007**	**1,893,450**
> Equity and liabilities				
Issued share capital[2]		10,898	10,898	10,898
Share premium reserve		398,823	398,823	398,823
Fair value reserve		75,379	87,864	79,882
Other reserves		-140,911	-92,466	-14,031
Retained earnings		6,140	-47,119[3]	-78,918
Shareholders' equity	2	**350,329**	**358,000**	**396,654**
Subordinated debt		150,000	150,000	80,000
Insurance liabilities		1,158,670	1,237,301	1,260,794
Provision for employee benefits		26,240	26,036	24,083
Derivatives		7,803	10,321	7,133
Deferred tax liabilities		3,844	13,991	12,437
Amounts due to banks		15,667	22,309	2,351
Other liabilities		98,045	98,049	109,998
Total equity and liabilities		**1,810,598**	**1,916,007**	**1,893,450**

1 The references next to the balance sheet items relate to the notes to the company statement of financial position in Section 9.2.
2 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.
3 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

8.2. Company Statement of Profit or Loss

In € thousands	Notes[1]	2017	2016
> Income			
Premium income		683,227	666,098
Reinsurance premiums		38,969	44,998
Net premium income		**644,258**	**621,100**
Fee and commission income		14	28
Fee and commission expense		-10	15
Net fee and commission income		**24**	**13**
Share in result of subsidiaries and associates		-3,846	974
Investment income		15,845	19,008
Result on derivatives		-	17,864
Total income		**656,281**	**658,959**
> Expenses			
Result on derivatives		9,263	-
Technical claims and benefits		379,293	425,660
Acquisition costs for insurance activities		143,426	128,880
Staff costs		72,873	109,779
Depreciation and amortisation of non-current assets		2,604	6,719
Other operating expenses		28,549	31,348
Impairment losses		399	12,308
Other interest expenses		10,730	7,145
Total expenses		**647,137**	**721,839**
Result before tax		**9,144**	**-62,880**
Tax expense		3,004	-15,761
Net result continued operations for the period		**6,140**	**-47,119**[2]

> Attribution:		
Net result continued operations attributable to shareholders	6,140	-47,119
Net result continued operations for the period	**6,140**	**-47,119**

1 The references next to the income statement items relate to the notes to the company statement of profit or loss in Section 9.2.
2 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

8.3. Company Statement of Total Comprehensive Income

Company statement of other comprehensive income

In € thousands	2017	2016
> Items that will not be reclassified subsequently to profit or loss		
Changes in valuation of defined benefit pension plan	-1,326	483
Total items never reclassified to profit or loss	**-1,326**	**483**
> Items that may be reclassified subsequently to profit or loss		
Unrealised revaluations	-11,949	8,311
Impairments and reversals	-101	-
Realised gains and losses fair value reserve through profit or loss	-435	-329
Total items that may be reclassified to profit or loss subsequently	**-12,485**	**7,982**
Other comprehensive income (after tax)	**-13,811**	**8,465**

Company statement of total comprehensive income

In € thousands	2017	2016
Net result for the period	6,140	-47,119[1]
Other comprehensive income (after tax)	-13,811	8,465
Total comprehensive income	**-7,671**	**-38,654**
> Attribution:		
Total comprehensive income attributable to the shareholder	-7,671	-38,654

1 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

8.4. Company Statement of Changes in Equity

Company statement of changes in equity 2017

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2017	**10,898**	**398,823**	**87,864**	**-92,466**	**-47,119**	**358,000**
Transfer of net result 2016	-	-	-	-47,119	47,119[2]	-
Transfers 2017	**-**	**-**	**-**	**-47,119**	**47,119**	**-**
Other comprehensive income	-	-	-12,485	-1,326		**-13,811**
Net result 2017	-	-	-	-	6,140	**6,140**
Total comprehensive income 2017	**-**	**-**	**-12,485**	**-1,326**	**6,140**	**-7,671**
Total changes in equity 2017	**-**	**-**	**-12,485**	**-1,326**	**6,140**	**-7,671**
Balance as at 31 December 2017	**10,898**	**398,823**	**75,379**	**-140,911**	**6,140**	**350,329**

1 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.
2 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2016, no dividends for 2017.

Statement of revaluation reserves and other legal reserves 2017

In € thousands	Fair value reserve
Balance as at 1 January 2017	**87,864**
Unrealised revaluations	-11,949
Impairments and reversals	-101
Realised gains and losses fair value reserve through profit or loss	-435
Amounts charged directly to total equity	**-12,485**
Total changes in equity 2017	**-12,485**
Balance as at 31 December 2017	**75,379**

Company statement of changes in equity 2016

In € thousands	Issued share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-5,846**	**-78,918**	**404,839**
Change in accounting policies / adjustment py	-	-	-	-8,185	-	**-8,185**
Adjusted balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-14,031**	**-78,918**	**396,654**
Transfer of net result 2015	-	-	-	-78,918	78,918	**-**
Transfers 2016	**-**	**-**	**-**	**-78,918**	**78,918**	**-**
Other comprehensive income	-	-	7,982	483	-	**8,465**
Net result 2016	-	-	-	-	-47,119[1]	**-47,119**
Total comprehensive income 2016	**-**	**-**	**7,982**	**483**	**-47,119**	**-38,654**
Total changes in equity 2016	**-**	**-**	**7,982**	**483**	**-47,119**	**-38,654**
Balance as at 31 December 2016	**10,898**	**398,823**	**87,864**	**-92,466**	**-47,119**	**358,000**[2]

1 The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

2 This amount has been adjusted for the impact (€ 1,350 thousand) of the new accounting policy as per 1 January 2016. Refer to 6.1 Accounting Policies.

Statement of revaluation reserves and other legal reserves 2016

In € thousands	Fair value reserve
Balance as at 1 January 2016	**79,882**
Unrealised revaluations	8,311
Impairments and reversals	-
Realised gains and losses fair value reserve through profit or loss	-329
Amounts charged directly to total equity	**7,982**
Total changes in equity 2016	**7,982**
Balance as at 31 December 2016	**87,864**

8.5. Company Cash Flow Statement

In € thousands	2017	2016
> Cash flow from operating activities		
Operating profit before tax	9,144	-62,880[1]
> Adjustments for:		
Depreciation and amortisation of non-current assets	2,604	6,719
Amortisation of investments	16,213	13,751
Changes in insurance liabilities	-53,213	-443,496
Changes in other provisions	204	1,953
Impairment charges / (reversals)	399	12,308
Unrealised results on investments through profit or loss	-4,304	-
Retained share in the result of associates	2,419	-385
Taxes (paid) received	-	5,499
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	-6,642	19,958
Change in other operating activities	-4,719	394,636
Net cash flow from operating activities	**-37,895**	**-51,937**
> Cash flow from investment activities		
Capital issue subsidiaries	-7,700	-
Sale and redemption of investments and derivatives	874,089	1,094,729
Purchase of investments and derivatives	-838,410	-1,120,266
Net cash flow from investment activities	**27,979**	**-25,537**
> Cash flow from finance activities		
Issue of subordinated loans	-	70,000
Net cash flow from financing activities	**-**	**70,000**
Net increase/(decrease) in cash and cash equivalents	**-9,916**	**-7,474**
Cash and cash equivalents 1 January	53,043	60,517
Cash and cash equivalents as at 31 December	**43,127**	**53,043**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	7,107	35,076
Dividends received	1	164
Interest paid	10,608	692

[1] The 2016 operating profit before tax, as reported in this annual report 2017, amounting to € -62,880 thousand, has been adjusted compared to the result before tax reported in the annual report 2016 (€ -75,593 thousand). For further explanation see paragraph 6.1.2.

9. Notes to the Company Financial Statements

9.1. Accounting Policies to the Company Financial Statements

Basis of Preperation

Pursuant to the option offered in article 2:362(8) of the Dutch Civil Code, VIVAT Schade prepares its company financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. These are the same accounting policies as those used for the consolidated financial statements (refer to Section 6.1 Principles for the preparation of the consolidated financial statements).

Changes in policies, estimates and presentation and other adjustments

As of 2017 designated parts of the disability insurance liabilities, which previously were measured using locked-in interest rates, are measured using current market interest rates. Prior to the recognition of this change in policies, the measurement of the insurance liabilities was adjusted. The impact of these events is presented in paragraph 6.1 'Accounting Policies for the Consolidated Financial Statements'. The effects of these events are recognised retrospectively and in accordance with the International Financial Reporting Standards a third statement of financial position (1 January 2016) is presented.

Applicable Accounting Policies

Where applicable, for items not described in this section, the accounting policies applied for the company financial statements are the same as those described in the section 6.1 Accounting policies for the consolidated financial statement. For the items not separately disclosed in the notes to the company financial statement, reference is made to the notes in the section 6.3 Notes to the consolidated financial statements.

Subsidiaries

Subsidiaries are companies and other entities in which VIVAT Schade has the power, directly or indirectly, to govern the financial and operating policies and that are controlled by VIVAT Schade. Subsidiaries are recognised using the equity method of accounting.

Movements in the carrying amounts of subsidiaries due to changes in their fair value and profit-sharing reserves are recognised in shareholders' equity.

Movements in the carrying amounts arising from the share of result of subsidiaries are recognised in accordance with the accounting policies of VIVAT Schade in profit or loss. The distributable reserves of subsidiaries are recognised in other reserves.

Receivables from and Debts to Group Companies

Loans (including subordinated loans) to and from group companies are measured at amortised cost.

9.2. Notes to the Company Financial Statements

1. Subsidiaries

Statement of Changes in Subsidiaries

In € thousands	2017	2016
Balance as at 1 January	1,153	1,153
Capital issue	7,700	-
Result	-4,743	-
Balance as at 31 December	**4,110**	**1,153**

At year-end 2017, VIVAT Schade wholly owned the following group entities:
- Volmachtkantoor Nederland BV
- Nieuw Rotterdam Knight Schippers BV
- W.Haagman & Co BV

2. Equity

Breakdown of Equity

In € thousands	2017	2016
Equity attributable to the shareholder	350,329	358,000
Total	**350,329**	**358,000**

The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.

The change in Equity attributable to shareholders in 2017 was caused by net result 2017 (€ 6,140 thousand) and change in Other Comprehensive Income (€ -13,811 thousand). For further details on equity, see Section 8.4, Company Statement of Changes in Equity.

The result 2016, as reported in this annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2.

3. Guarantees and Commitments

For details on off-balance sheet commitments, see Note 14 Guarantees and commitments of the consolidated financial statements.

4. Related Parties

Intra-group Balances and Transactions between VIVAT Schadeverzekeringen NV and Subsidiaries

The intra-group balances and transactions between VIVAT Schadeverzekeringen NV and its subsidiaries in 2017 were:

- At the end of 2017 VIVAT Schadeverzekeringen NV has liabilities to group companies of € 1,153 thousand (2016: € 1,153 thousand).
- In 2017 Acquisition costs for insurance activities were charged for an amount of € 16,377 thousand to VIVAT Schadeverzekeringen NV by its subsidiaries.

For details on the intra-group balances and transactions between VIVAT Schade, VIVAT, Anbang and Affiliates, see Note15 Related parties of the consolidated financial statements.

5. Audit Fees

Pursuant to Section 382a(3) of Book 2 of the Dutch Civil Code, the company has availed itself of the exemption from disclosing the audit fees in the annual report. These disclosures have been included in the annual report 2017 of VIVAT NV.

6. Result Appropriation

For the provisions of the articles of association governing the appropriation of profit or loss reference is made to Section Additional information.

The Executive Board proposes to the General Meeting of Shareholders to add the positive result for 2017 of € 6,140 thousand to the other reserves of VIVAT Schadeverzekeringen NV.

In accordance with the resolution of the General Meeting of Shareholders held on 26 June 2017, the negative result for 2016 of € 56,654 thousand has been deducted from the other reserves of VIVAT Schadeverzekeringen NV.

Amstelveen, the Netherlands, 29 May 2018

The Supervisory Board

M.W. Dijkshoorn (Chairman)

M.R. van Dongen

M. He

K.C.K. Shum

P.P.J.L.M. Lefèvre

The Executive Board

J.J.T. van Oijen (Chairman)

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

October | November | December

Innovation

VINCE

To drive and accelerate innovation continuously within the company VIVAT opened a new VIVAT Innovation Centre – simply VINCE. VINCE will facilitate VIVAT employees to develop new ideas and stimulate teams to work together with start-ups by means of co-creation. VINCE is deliberately based outside of the main offices of VIVAT, in start-up community B. Amsterdam. This allows our innovation teams to work full focus on their ideas in a stimulating and inspiring environment of start-ups.

New brand

nowGo

VIVAT launched a new digital brand: nowGo. A remarkable video for car insurance was the first in a series of online commercials that are all played in reverse. By choosing this effect nowGo emphasises that one can only enjoy something —a trip, a new car, a new home— if you have properly insured it. Closing an insurance however is not always as easy as it should be. With the wellbeing of the consumer in mind, nowGo wants to change this by giving all the information that will help you decide what suits you best. People can close their insurance instantly and always at a sharp premium.

Awards

International awards for collaboration in start-ups

Before year's end the Startup Europe Partnership (SEP) awarded VIVAT with two awards for its collaboration in start-ups. VIVAT has been recognised as an Open Innovation Challenger and as an Open Innovation Fast Mover. The prizes were presented to CEO Ron van Oijen in Brussels. VIVAT is the only Dutch insurer to receive an award. Ron van Oijen: "We are very proud of these awards. This is the professional, independent proof that VIVAT is making great strides in its ambition to become one of the most innovative insurers in the Netherlands."

VIVAT Amstelveen

Additional Information

1. Provisions in Articles of Association Governing the Appropriation of Profit or Loss

Article 41 Profit and Loss; general

1. The profits shall be at the free disposal of the general meeting.

2. The company may only make distributions to shareholders and other persons entitled to distributable profits to the extent its equity exceeds the total amount of its issued share capital and the reserves which to be maintained pursuant to the law.

3. Distribution of profits shall take place following the adoption of the annual accounts from which it appears that such distribution is allowed.

Article 42 Profit and Loss; Distributions

1. Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the management board the general meeting determines another date thereof.

2. Dividends that have not been collected within five years after they became due and payable shall revert to the company.

3. If the general meeting so determines on the proposal of the management board, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in Section 2:105, paragraph 4, of the Dutch Civil Code.

4. A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by the law.

Independent auditor's report

To: the shareholder and supervisory board of VIVAT Schadeverzekeringen N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of VIVAT Schadeverzekeringen N.V., based in Amstelveen (VIVAT Schade or the Company). The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of VIVAT Schadeverzekeringen N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of VIVAT Schadeverzekeringen N.V. as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2017
- The following statements for 2017: the consolidated statement of profit or loss, the consolidated statements of total comprehensive income, changes in equity and cash flows
- The notes, comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company statement of financial position as at 31 December 2017
- The company statement of profit or loss for 2017
- The notes, comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of VIVAT Schadeverzekeringen N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€7 million (2016: €3.75 million)
Benchmark applied	Approximately 2% of VIVAT Schade's shareholder's equity (2016: 1%)
Explanation	VIVAT Schade's equity and solvency, and the ability to meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on VIVAT Schade's shareholder's funds. The increase of the materiality level to 2% is a result of the more robust capital position during 2017.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the audit committee of the supervisory board that misstatements in excess of €350,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the consolidated audit

VIVAT Schade is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of VIVAT Schadeverzekeringen N.V.

We are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for the reporting units based on their size and/or the risk profile. We included two of the seven entities in the audit scope for consolidation purposes, resulting in a coverage of 100% of total assets, 100% of shareholder's equity and 100% of profit before tax.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Company's financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimates used in calculation of the insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	VIVAT Schade has insurance contract liabilities of €1.2 billion, representing 79% of the Company's total liabilities. The measurement of insurance contract liabilities involves judgment over uncertain future outcomes, mainly the ultimate total settlement value of insurance liabilities. Various economic and non-economic assumptions are being used to estimate these liabilities. The valuation of the insurance liabilities requires the application of significant judgment in the setting of: • Expected loss ratio for the calculation of the provision for claims incurred but not reported (IBNR) and the unexpired risk reserve (URR). • Assumptions for morbidity, recovery and mortality rates for bodily injury and disability covers. The Company's IFRS Liability Adequacy Test (LAT) is performed in order to confirm that insurance contract liabilities are adequate in the context of expected future cash outflows. As at 31 December 2017, the LAT of VIVAT Schade shows a surplus. In the 2017 financial statements, VIVAT Schade made an adjustment to its 2016 disability insurance liabilities as disclosed in section 6.1. Further, the Company made a voluntary change in accounting policy in relation to parts of these disability insurance liabilities. As of 2017, the Company applies current market interest rates instead of a fixed rate to discount these insurance liabilities. The comparative information has been restated accordingly.
Our audit approach	We involved our own actuarial specialists to assist us in performing our audit procedures in this area, which included among others: • Consideration of the appropriateness of the expected loss ratio used in the valuation of the IBNR and URR insurance liabilities by assessing the Company's past claim developments, the applied expected loss ratio assumptions and trends in the industry • Consideration of the appropriateness of the morbidity, recovery and mortality rate assumptions by reference to company and industry data on historical experience and expectations of future developments of claims Other key audit procedures included assessing the Company's methodology for calculating the insurance contract liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contract liabilities during the year. We assessed whether the movements are in line with the changes in assumptions adopted by the Company, our understanding of developments in the business, and our expectations derived from market experience.

	Further, we considered the validity of the Company's IFRS LAT results, which is a key test performed in order to ensure that insurance contract liabilities are adequate in the context of expected future cash flows based on best estimate assumptions. Our work on the LAT includes assessing the reasonableness of the projected cash flows. We have assessed the impact of the adjustment made to the 2016 disability insurance liabilities. Further, we have assessed whether the voluntary change in accounting policy to parts of the Disability insurance liabilities is acceptable under IFRS-EU. We have verified the financial impact and the restatement of the comparative figures in the statement of financial position and profit or loss. We considered whether VIVAT Schade's disclosures in Note 9 to the financial statements, in relation to the insurance contract liabilities and Liability Aadequacy Test result, and section 6.1 as well as Notes 7, 9, 21 and 27, in relation to the adjustment and voluntary change in accounting policy, are compliant with IFRS-EU.
Key observations	We consider the estimates used to be within a reasonable range. The disclosures of insurance contract liabilities and liability adequacy test results meet the requirements of IFRS-EU. Furthermore, the disclosures of the 2016 adjustment and the accounting policy change meet the requirements of IFRS-EU.
Reliability and continuity of the information technology and systems	
Risk	VIVAT Schade is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. VIVAT Schade continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. VIVAT Schade is continuously improving the efficiency and effectiveness of its IT systems and IT infrastructure and the reliability and continuity of the electronic data processing, including its defense against cyber-attacks.
Our audit approach	As part of our audit procedures, we have assessed the changes in the IT systems and IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. A particular area of attention related to logical access management, including access rights and segregation of duties within a system of VIVAT Schade's investment manager ACTIAM. We tested logical access rights to the extent relied upon for the audit of the consolidated financial statements. This resulted in the identification of certain control deficiencies with respect to access rights and segregation of duties. To mitigate the audit risk, we performed additional procedures over management's remediation activities and performed additional substantive procedures.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

In the 2016 auditor's report, Fair value measurement of investments and related disclosures and Solvency were identified as key audit matters. Based on our procedures performed in 2016 and 2017, we consider the risks around these matters lower. As a result, we have no longer included these items as key audit matters.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information, that consists of:
- The report of the executive board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding, obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the report of the executive board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed by the supervisory board as auditor of VIVAT Schade on 29 October 2015 as of the audit for the year 2016, and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements of VIVAT Schade, we provided the following services to VIVAT Schade:
- We issued auditor's reports on selected regulatory reporting templates of VIVAT Schade to the Dutch Central Bank (DNB).
- We audited the statement Account Balance 2017 in accordance with the financial reporting provisions of the 15% Quota Share Reinsurance Contract between the Company and a Dutch insurer.
- We issued assurance reports on statements of premium income and number of motor vehicles insured.

Description of responsibilities for the financial statements

Responsibilities of the executive board and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high but not absolute level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of the executive board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 29 May 2018

Ernst & Young Accountants LLP

signed by Anke Snaak